

FY05 Financial Section

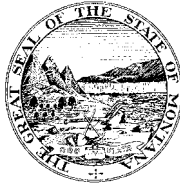
FY05 Financial Section

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the basic financial statements of the state of Montana as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the state of Montana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. The identified instances of noncompliance are described below:

1. The Public Employees' Retirement Board manages eight defined benefit retirement systems. The Montana Constitution and state law require these systems be actuarially sound. The actuarial valuation as of July 1, 2005, indicates the Public Employees' Retirement System – Defined Benefit Retirement Plan, Sheriffs' Retirement System, and Game Wardens' and Peace Officers' Retirement System are not actuarially sound.
2. The Teachers' Retirement Board administers a defined benefit retirement system. The Montana Constitution requires this system to be actuarially sound. The actuarial valuation as of July 1, 2005, indicates the Teachers' Retirement System is not actuarially sound.

We also noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended solely for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

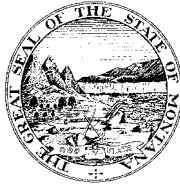
/s/ James Gillett

November 23, 2005

James Gillett, CPA
Deputy Legislative Auditor

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



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INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2005, which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.06 and 1.38 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.06 and 0.12 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units which represent 10.90 and 5.64 percent, respectively, of the assets and revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund and the aggregate remaining fund information of the state of Montana, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information on pages A-5 through A-15, and A-96 through A-98, and A-99, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages A-100 through A-137 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At July 1, 2005, four retirement systems, Public Employees' (PERS-DBRP), Teachers' (TRS), Game Wardens' and Peace Officers' (GWPORS) and Sheriffs' (SRS) retirement systems were not actuarially sound with an Unfunded Actuarially Accrued Liability (UAAL) totaling \$522.6 million, \$903.3 million, \$5.5 million, and \$10.9 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at January 1, 2006, is \$266.4 million for PERS-DBRP, \$463 million for TRS, \$4.3 million for GWPORS, and \$(3.6) million for SRS. The negative \$3.6 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system.

In accordance with *Government Auditing Standards*, we have issued our report dated November 23, 2005, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report, on page A-1, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

/s/ James Gillett
James Gillett, CPA
Deputy Legislative Auditor

November 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2005 by \$5.4 billion (reported as net assets) compared with \$4.6 billion at the end of fiscal year 2004. Of this amount, \$421.4 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$943.3 million compared with \$874 million at fiscal year 2004.

Fund Highlights

As of the close of fiscal year 2005, the State's governmental funds reported combined ending fund balances of \$2.7 billion compared with \$2.3 billion at fiscal year 2004. Of this amount, \$252.8 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$289.7 million compared with \$132.9 million in fiscal year 2004, which is a increase of \$156.8 million (or 118%).

The State's business-type activity funds reported net assets at the close of fiscal year 2005 in the amount of \$266.9 million compared with the fiscal year-end 2004 net assets of \$236.3 million. \$240.5 million of the business-type activity fund equity was restricted at fiscal year-end 2005 leaving an unrestricted balance of \$16.7 million. This represents a \$1.8 million (or 12.1%) increase from the fiscal year-end 2004 business-type activity fund unrestricted net asset balance of \$14.9 million.

Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$116.5 million, from \$305.1 million in fiscal year 2004 to \$421.6 million (or 38.2%) in fiscal year 2005.

Business-type activities reported bonds and notes payable of \$5.2 million at fiscal year-end 2005. This represents a decrease of \$2.7 million (or 34.2%) over the fiscal year-end 2004 reported amount of \$7.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

Business-type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Discretely Presented Component Units – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

Fund Financial Statements (Reporting the State's Major Funds)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

Proprietary Funds Financial Statements – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. Internal Service Fund reports activities that provide supplies and services for the State's other programs and activities such as the Motor Pool.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Montana's overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session, stronger than expected statewide economic performance, an almost non-existent 2005 fire season, and the receipt of the federal Jobs and Growth Tax Relief Reconciliation Act of 2004 (JGTRRA).

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled \$5.4 billion at the end of fiscal year 2005. Net assets of the governmental activities increased \$761.6 million (or 17.6%), and business-type activities had a \$30.6 million (or 12.9%) increase.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Net Assets
As of Fiscal Year Ended June 30
(expressed in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|------------------------------------|--------------------|-------------------------------------|------------------|-------------------------------------|--------------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Current and other assets | \$2,952,118 | \$3,407,149 | \$350,552 | \$373,018 | \$3,302,670 | \$3,780,167 |
| Capital assets | 2,409,128 | 2,805,658 | 8,925 | 9,670 | 2,418,053 | 2,815,328 |
| Total assets | 5,361,246 | 6,212,807 | 359,477 | 382,688 | 5,720,723 | 6,595,495 |
| Long-term liabilities | 336,669 | 444,855 | 9,896 | 7,150 | 346,565 | 452,005 |
| Other liabilities | 693,483 | 675,235 | 113,274 | 108,682 | 806,757 | 783,917 |
| Total liabilities | 1,030,152 | 1,120,090 | 123,170 | 115,832 | 1,153,322 | 1,235,922 |
| Invested in capital assets, net of related debt | 2,250,177 | 2,528,808 | 8,925 | 9,670 | 2,259,102 | 2,538,478 |
| Restricted | 1,858,088 | 2,159,185 | 212,473 | 240,514 | 2,070,561 | 2,399,699 |
| Unrestricted | 222,829 | 404,724 | 14,909 | 16,672 | 237,738 | 421,396 |
| Total net assets | <u>\$4,331,094</u> | <u>\$5,092,717</u> | <u>\$236,307</u> | <u>\$266,856</u> | <u>\$4,567,401</u> | <u>\$5,359,573</u> |

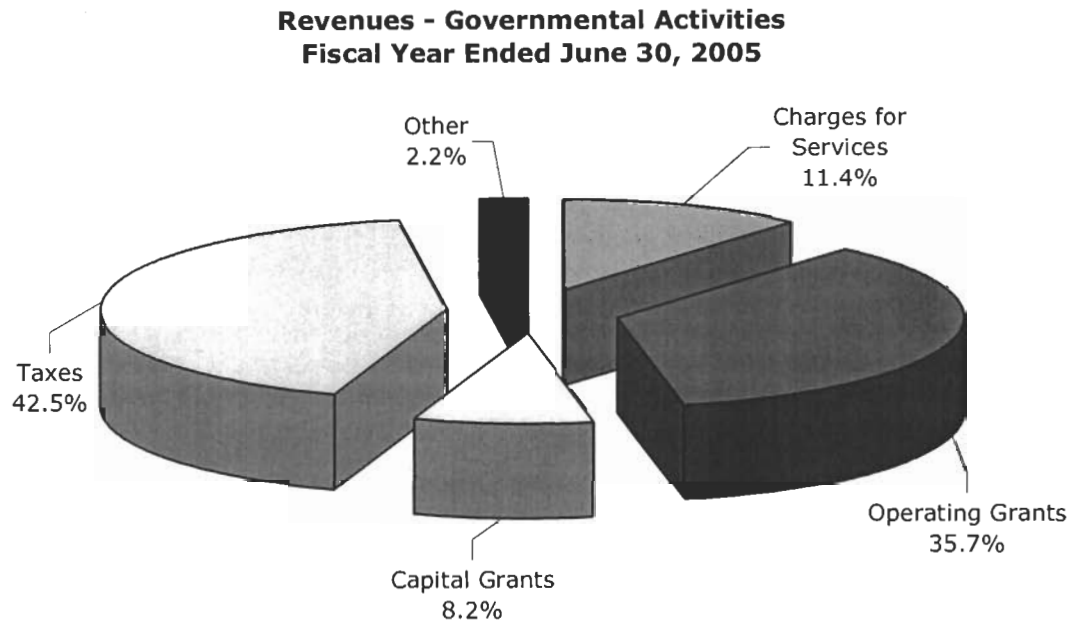
The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For Fiscal Year Ended June 30
(expressed in thousands)

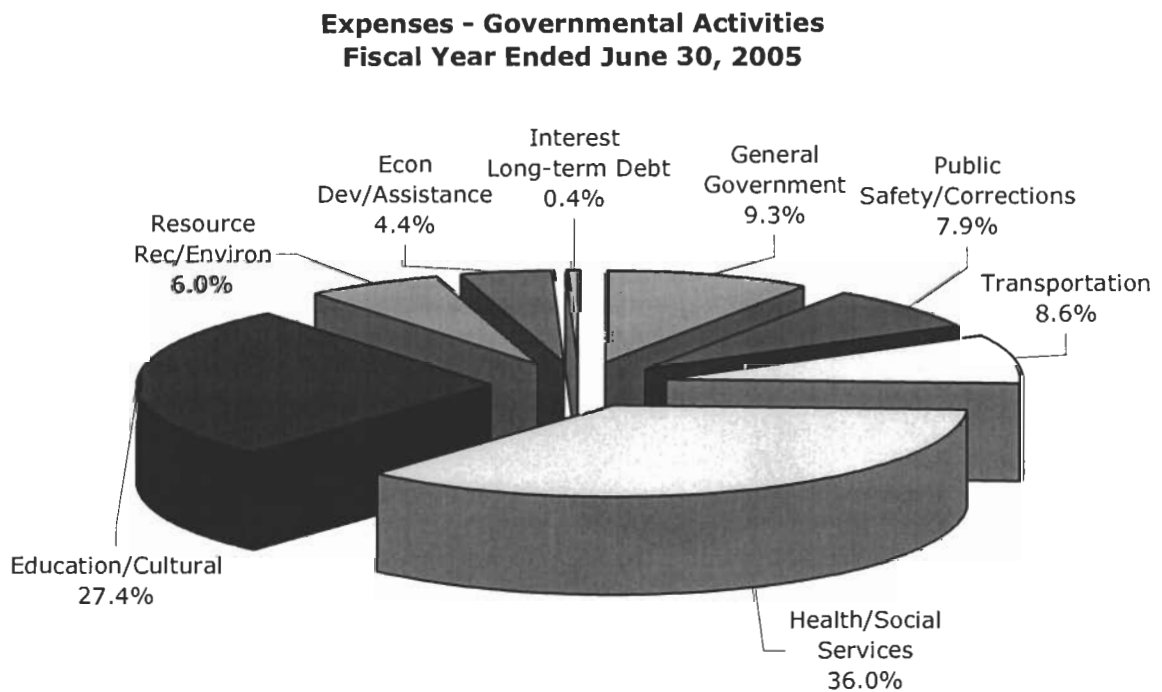
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|------------------------------------|-------------|-------------------------------------|-------------|-------------------------------------|-------------|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 472,445 | \$ 443,984 | \$220,903 | \$236,365 | \$ 693,348 | \$ 680,349 |
| Operating grants | 1,271,515 | 1,391,026 | 55,487 | 58,433 | 1,327,002 | 1,449,459 |
| Capital grants | 290,045 | 319,434 | 177 | 159 | 290,222 | 319,593 |
| General revenues | | | | | | |
| Taxes | 1,436,571 | 1,657,668 | 14,621 | 15,624 | 1,451,192 | 1,673,292 |
| Other | 64,531 | 85,497 | 10,275 | 3,135 | 74,806 | 88,630 |
| Total revenues | 3,535,107 | 3,897,609 | 301,463 | 313,716 | 3,836,570 | 4,211,323 |
| Expenses: | | | | | | |
| General government | 285,781 | 305,819 | - | - | 285,781 | 305,819 |
| Public safety/corrections | 227,786 | 258,610 | - | - | 227,786 | 258,610 |
| Transportation | 400,034 | 281,074 | - | - | 400,034 | 281,074 |
| Health/social services | 1,109,045 | 1,182,281 | - | - | 1,109,045 | 1,182,281 |
| Educational/cultural | 874,846 | 900,542 | - | - | 874,846 | 900,542 |
| Resource/rec/envIRON | 258,057 | 197,539 | - | - | 258,057 | 197,539 |
| Econ dev/assistance | 144,687 | 144,777 | - | - | 144,687 | 144,777 |
| Interest on long-term debt | 15,088 | 14,375 | - | - | 15,088 | 14,375 |
| Unemployment Insurance | - | - | 93,882 | 75,291 | 93,882 | 75,291 |
| Liquor Stores | - | - | 42,827 | 45,503 | 42,827 | 45,503 |
| State Lottery | - | - | 28,669 | 27,681 | 28,669 | 27,681 |
| Economic Dev Bonds | - | - | 2,197 | 2,630 | 2,197 | 2,630 |
| Hail Insurance | - | - | 1,949 | 3,153 | 1,949 | 3,153 |
| Gen Govt Services | - | - | 48,395 | 50,329 | 48,395 | 50,329 |
| Prison Funds | - | - | 4,244 | 5,268 | 4,244 | 5,268 |
| MUS Group Insurance | - | - | 39,690 | 40,524 | 39,690 | 40,524 |
| MUS Workers Comp | - | - | 2,552 | 2,842 | 2,552 | 2,842 |
| Total expenses | 3,315,324 | 3,285,017 | 264,405 | 253,221 | 3,579,729 | 3,538,238 |
| Increase (decrease) in net assets before transfers | 219,783 | 612,592 | 37,058 | 60,495 | 256,841 | 673,085 |
| Transfers | 30,812 | 29,871 | (30,812) | (29,871) | - | - |
| Change in net assets | 250,595 | 642,463 | 6,246 | 30,624 | 256,841 | 673,085 |
| Net assets, beg of year (restated) | 4,080,499 | 4,450,254 | 230,061 | 236,232 | 4,310,560 | 4,686,488 |
| Net assets, end of year | \$4,331,094 | \$5,092,717 | \$236,307 | \$266,856 | \$4,567,401 | \$5,359,573 |

Governmental Activities

The following chart depicts revenues of the governmental activities for the fiscal year:

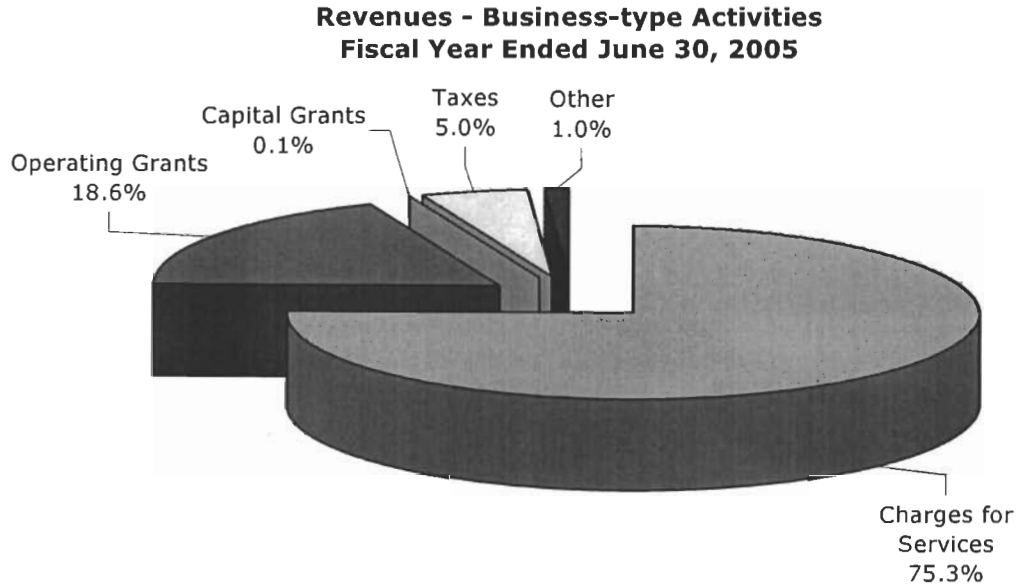


The following chart depicts expenses of the governmental activities for the fiscal year:

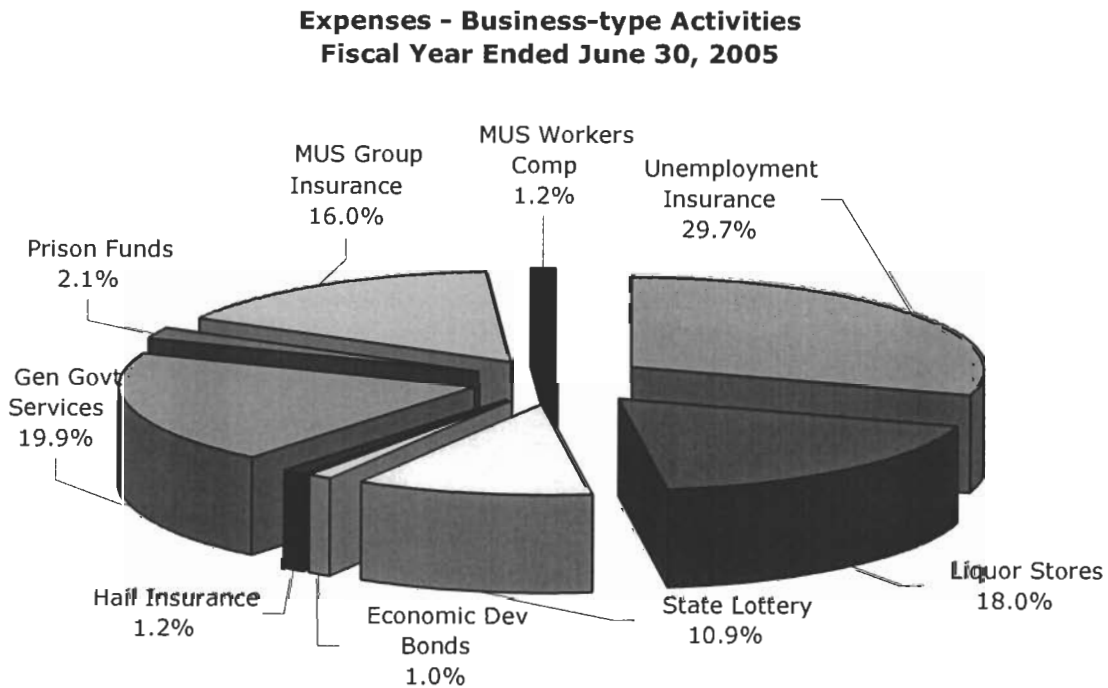


Business-type Activities

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:



FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.7 billion. Of this total amount, \$258.5 million (or 9.6%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$289.7 million. Unreserved fund balance increased during the fiscal year by \$156.8 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The 59th Legislative Session convened on January 3 and adjourned on April 21, 2005. The session approved a 342.7 million increase in General Fund spending for the 2007 biennium. This represents an almost 15% increase over the 2005 biennium expenditure level. The General Fund budgetary increases approved for the 2007 biennium follow:

- \$104 million increase in Human Services programs.
- \$86.5 million increase for K-12 Education
- \$36.3 million increase for Higher Education
- \$34 million increase for Corrections
- \$81.8 million for other governmental functions

Supplemental Development – General Fund supplementals approved by the Legislature included \$4.4 million for secure care and corrections of inmates; \$8.5 million for the highway patrol court settlement; \$6.8 million for additional district court reimbursements; \$9 million to fully fund the Crow Tribe settlement escrow account, and \$16 million (transfer and expenditure authority) to pay the remaining IRIS loan balance and final contractor obligations.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2005. Overall General Fund revenues were up by \$142.2 million (or 11.6%). This was primarily due to the individual and corporate income tax revenue increase of \$100.2 and \$30.5 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a \$27.6 million increase in natural resource tax revenues between fiscal years 2004 and 2005.

General Fund Expenditures – General Fund expenditures increased by \$66 million (or 5.7%) in 2005. These increases were primarily for the purposes described in the supplemental development section above.

State Special Revenue Fund

At the end of the current fiscal year, fund balance of the State Special Revenue Fund was \$907.4 million. Fund balance increased during the fiscal year by \$213.2 million, primarily because of increased natural resource tax, property tax, investment earnings, and federal revenue.

Within the State Special Revenue Fund, expenditures increased \$21.2 million in the General Government function. This primarily relates to increased oil production tax distributions to the counties of \$20.5 million. The Education/Cultural functional expenditures increased by \$12.7 million. This primarily relates to an increase in land trust distributions to the State's K-12 schools of \$11.5 million. Department of Transportation Highway expenditures decreased by \$27.3 million, offsetting the increases previously discussed.

Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased to \$27.4 million (or 12.8%).

The decrease of \$46.4 million in charges for services revenues and increase of \$43.3 million in indirect cost recoveries represent a correction in the classification of federal highway indirect cost recoveries. These revenues were previously misclassified as charges for services.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2005. Significant changes within the functional categories were caused by (1) Transportation - Increased federal highway

construction expenditures of \$25.4 million; (2) Resource/Recreation/Environment - Decreased federal fire reimbursements of \$44.6 million; (3) Capital Outlay - Increased federally funded military construction projects of \$12.6 million; (3) Public Safety/Corrections - Increased Disaster and Emergency Services funding to the State of \$13.8 million; (4) Health and Social Services - Increased Medicaid reimbursements of \$12.2 million and increased Food Stamp benefits of \$9.4 million.

Coal Severance Tax Permanent Fund

Reserved fund balance in the Coal Severance Tax Permanent Fund increased by \$32.8 million (or 5%). This increase was primarily fueled by increased natural resource taxes of \$4.3 million (or 27.4%) and investment income of \$30.5 million (or 172.4%). These increases reflect increased production of Montana's coal and a significantly improved investment climate over that of the previous year.

Land Grant Permanent Fund

Reserved fund balance in the Land Grant Permanent Fund increased by \$9.5 million (or 2.2%). This increase was primarily caused by increased investment income of \$27.8 million (or 418.5%). This increase reflects a significantly improved investment climate over that of the previous year. Rentals and leases and royalties income increased by \$11.4 million (or 36.6%). This increase relates to the higher natural resource production within the State during 2005 as the result of higher gas, oil, timber, and metals prices. The impact of this increase in revenues on fund balance was offset by transfers out for educational purposes.

Unemployment Insurance Enterprise Fund

Net assets restricted for unemployment compensation increased by \$16.1 million (or 8.4%). Unemployment premium collections increased by \$5 million (or 7.4%). Unemployment benefits paid decreased by \$22.1 million. Both of these factors contributed to the increase in net assets and are reflective of Montana's strong economy during 2005.

Economic Development Enterprise Fund

Net assets did not change significantly in this fund during 2005. Operating activity within this fund also did not change significantly during the year.

General Governmental Functions

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 9.8% from fiscal year 2004 to fiscal year 2005. Revenues from various sources for fiscal year 2005, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

| Revenue Source | Amount | 2005 Percent of Total | Increase (Decrease) from 2004 | Percent Increase (Decrease) |
|-------------------------------|--------------------|--------------------------------------|--|--|
| Licenses/permits | \$ 245,244 | 6.4% | \$ 4,632 | 1.9% |
| Taxes | 1,627,858 | 42.2 | 211,466 | 14.9 |
| Chg srv/fines/forfeits/settle | 145,235 | 3.8 | (55,355) | (27.6) |
| Investment earnings | 143,937 | 3.7 | 94,574 | 191.6 |
| Securities lending income | 5,169 | 0.1 | 3,137 | 154.4 |
| Sales doc/merch/property | 22,655 | 0.6 | 4,633 | 25.7 |
| Rentals/leases/royalties | 43,723 | 1.1 | 12,036 | 38.0 |
| Contributions/premiums | 7,744 | 0.2 | 136 | 1.8 |
| Grants/contracts/donations | 27,984 | 0.7 | 5,116 | 22.4 |
| Federal | 1,502,939 | 39.0 | 22,127 | 1.5 |
| Federal indir cost recvy | 81,050 | 2.1 | 43,228 | 114.3 |
| Other revenues | 4,340 | 0.1 | (2,072) | (32.3) |
| Total revenues | \$3,857,878 | 100.0% | \$343,658 | |

Total expenditures for all governmental functions increased 3.3% from fiscal year 2004 to fiscal year 2005. Expenditures by function for fiscal year 2005, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

| Expenditure Function | Amount (in thousands) | 2005 Percent of Total | Increase (Decrease) from 2004 | Percent Increase (Decrease) |
|---------------------------------|----------------------------------|--------------------------------------|--|--|
| General government | \$ 293,808 | 8.1% | \$ 41,322 | 16.4% |
| Public safety/corrections | 238,929 | 6.6 | 30,336 | 14.5 |
| Transportation | 523,022 | 14.5 | (6,533) | (1.2) |
| Health/social services | 1,186,462 | 32.8 | 72,398 | 6.5 |
| Education/cultural | 905,150 | 25.0 | 6,162 | 0.7 |
| Resource/recreation/environment | 206,903 | 5.7 | (43,687) | (17.4) |
| Economic development/assistance | 146,306 | 4.0 | 1,925 | 1.3 |
| Securities lending | 4,905 | 0.1 | 3,121 | 174.9 |
| Debt service | 41,374 | 1.1 | 1,345 | 3.4 |
| Capital outlay | 70,851 | 2.1 | 10,541 | 17.5 |
| Total expenditures | <u>\$3,617,710</u> | <u>100.0%</u> | <u>\$116,930</u> | |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$4.6 billion, net of accumulated depreciation of \$1.8 billion, leaving a net book value of \$2.8 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 16.7% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt decreased from \$219.6 million at June 30, 2004, to \$213.2 million at June 30, 2005.

The ratio of general obligation debt to assessed property valuation and the amount of general obligation debt per capita are:

| | Amount (in thousands) | Ratio Debt to Assessed Value (1) | State Debt Per Capita (2) |
|-------------------------|----------------------------------|---|--------------------------------------|
| General obligation debt | \$213,195 | 0.43% | \$229.98 |

(1) Assessed value is based on tax year.

(2) Based on 2004 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

ECONOMIC CONDITION AND OUTLOOK

The unemployment rate for the State of Montana was 4.4 % in the second quarter of 2005, which is unchanged from the rate of 4.4% during the second quarter of 2004. This compares favorably with the nation's average unemployment rate of 5.2% during the same time period.

The 59th Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2005 biennium of \$162.4 million. During fiscal year 2005, economic conditions continued to improve with the General Fund balance, as of June 30, 2005, ending at the \$299.8 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2005. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriff's Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

STATEMENT OF NET ASSETS

JUNE 30, 2005

(expressed in thousands)

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|----------------------------|-----------------------------|--------------|--------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| ASSETS | | | | |
| Cash/cash equivalents (Note 3) | \$ 901,086 | \$ 269,424 | \$ 1,170,510 | \$ 201,489 |
| Receivables (net) | 283,227 | 31,621 | 314,848 | 68,669 |
| Due from primary government | - | - | - | 1,868 |
| Due from other governments | 114,487 | 304 | 114,791 | 20,905 |
| Due from component units | 1,765 | 1,982 | 3,747 | 1,562 |
| Internal balances | (8,659) | 8,659 | - | - |
| Inventories | 26,685 | 6,914 | 33,599 | 4,531 |
| Advances to component units | 8,881 | 5,264 | 14,145 | - |
| Long-term loans/notes receivable | 226,077 | 35,951 | 262,028 | 689,079 |
| Equity in pooled investments (Note 3) | 1,315,888 | - | 1,315,888 | 17,092 |
| Investments (Note 3) | 357,894 | 9,155 | 367,049 | 1,228,384 |
| Securities lending collateral (Note 3) | 172,467 | 410 | 172,877 | 121,561 |
| Deferred charges | 2,682 | 1,421 | 4,103 | 7,434 |
| Capital assets (net) (Note 5) | 2,805,658 | 9,670 | 2,815,328 | 499,213 |
| Other assets | 4,669 | 1,913 | 6,582 | 18,225 |
| Total assets | 6,212,807 | 382,688 | 6,595,495 | 2,880,012 |
| LIABILITIES | | | | |
| Accounts payable | 351,321 | 7,271 | 358,592 | 54,243 |
| Lottery prizes payable | - | 2,694 | 2,694 | - |
| Due to primary government | - | - | - | 3,747 |
| Due to other governments | 14,632 | 879 | 15,511 | 8,525 |
| Due to component units | 1,867 | 1 | 1,868 | 1,562 |
| Advances from primary government | - | - | - | 14,145 |
| Deferred revenue | 23,707 | 2,742 | 26,449 | 24,149 |
| Amounts held in custody for others | 25,403 | 515 | 25,918 | 18,970 |
| Securities lending liability (Note 3) | 172,467 | 410 | 172,877 | 121,561 |
| Other liabilities | 866 | - | 866 | 9,554 |
| Short-term debt (Note 11) | - | 84,280 | 84,280 | - |
| Long-term liabilities (Note 11): | | | | |
| Due within one year | 84,972 | 9,890 | 94,862 | 162,044 |
| Due in more than one year | 444,855 | 7,150 | 452,005 | 1,518,223 |
| Total liabilities | 1,120,090 | 115,832 | 1,235,922 | 1,936,723 |

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|---|----------------------------|-----------------------------|--------------|--------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 2,528,808 | \$ 9,670 | \$ 2,538,478 | \$ 274,508 |
| Restricted for: | | | | |
| Transportation | 52,845 | - | 52,845 | - |
| Fish, wildlife, and parks | 64,695 | - | 64,695 | - |
| Federal grants | 27,165 | - | 27,165 | 21 |
| Debt service/construction | 7,695 | - | 7,695 | 32,664 |
| Unemployment compensation | - | 207,157 | 207,157 | - |
| Funds held as permanent investments: | | | | |
| Nonexpendable | 1,329,791 | - | 1,329,791 | 180,068 |
| Expendable | 67,078 | - | 67,078 | - |
| Housing authority | - | - | - | 137,879 |
| Resource/environment | 545,612 | - | 545,612 | - |
| Other purposes | 64,304 | 33,357 | 97,661 | 81,520 |
| Unrestricted | 404,724 | 16,672 | 421,396 | 236,629 |
| Total net assets | \$ 5,092,717 | \$ 266,856 | \$ 5,359,573 | \$ 943,289 |

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | |
|---|--------------|----------------------------|---|---|-----------------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | NET (EXPENSE) REVENUE |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 305,819 | \$ 49,637 | \$ 44,672 | \$ 767 | \$ (210,743) |
| Public safety/corrections | 258,610 | 146,746 | 91,630 | - | (20,234) |
| Transportation | 281,074 | 38,101 | 35,596 | 312,630 | 105,253 |
| Health/social services | 1,182,281 | 31,467 | 860,300 | - | (290,514) |
| Education/cultural | 900,542 | 30,499 | 186,152 | - | (683,891) |
| Resource/recreation/environment | 197,539 | 121,539 | 94,948 | 6,037 | 24,985 |
| Economic development/assistance | 144,777 | 25,995 | 77,728 | - | (41,054) |
| Interest on long-term debt | 14,375 | - | - | - | (14,375) |
| Total governmental activities | 3,285,017 | 443,984 | 1,391,026 | 319,434 | (1,130,573) |
| Business-type activities: | | | | | |
| Unemployment Insurance | 75,291 | 72,866 | 18,772 | - | 16,347 |
| Liquor Stores | 45,503 | 52,081 | - | - | 6,578 |
| State Lottery | 27,681 | 33,815 | - | - | 6,134 |
| Economic Development Bonds | 2,630 | 5 | 2,617 | - | (8) |
| Hail Insurance | 3,153 | 7,404 | 158 | - | 4,409 |
| General Government Services | 50,329 | 14,244 | 36,407 | 159 | 481 |
| Prison Funds | 5,268 | 5,233 | - | - | (35) |
| MUS Group Insurance | 40,524 | 47,739 | 410 | - | 7,625 |
| MUS Workers Compensation | 2,842 | 2,978 | 69 | - | 205 |
| Total business-type activities | 253,221 | 236,365 | 58,433 | 159 | 41,736 |
| Total primary government | \$ 3,538,238 | \$ 680,349 | \$ 1,449,459 | \$ 319,593 | \$ (1,088,837) |
| Component units: | | | | | |
| Housing Authority | \$ 42,460 | \$ 219 | \$ 48,636 | \$ - | \$ 6,395 |
| Facility Finance Authority | 276 | 280 | 62 | - | 66 |
| State Compensation Insurance (New Fund) | 202,930 | 189,430 | - | - | (13,500) |
| State Compensation Insurance (Old Fund) | 10,555 | - | - | - | (10,555) |
| Montana State University | 372,205 | 149,688 | 148,435 | 4,554 | (69,528) |
| University of Montana | 293,932 | 129,659 | 108,069 | 2,378 | (53,826) |
| Total component units | \$ 922,358 | \$ 469,276 | \$ 305,202 | \$ 6,932 | \$ (140,948) |

The notes to the financial statements are an integral part of this statement.

| | PRIMARY GOVERNMENT | | | COMPONENT UNITS |
|--|----------------------------|-----------------------------|----------------|--------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL | |
| Changes in net assets: | | | | |
| Net (expense) revenue | \$ (1,130,573) | \$ 41,736 | \$ (1,088,837) | \$ (140,948) |
| General revenues: | | | | |
| Taxes: | | | | |
| Property | 186,229 | - | 186,229 | - |
| Fuel | 190,897 | - | 190,897 | - |
| Natural resource | 191,723 | - | 191,723 | - |
| Individual income | 729,459 | - | 729,459 | - |
| Corporate income | 101,834 | - | 101,834 | - |
| Other | 257,526 | 15,624 | 273,150 | - |
| Unrestricted grants and contributions | - | - | - | 106 |
| Settlements | 28,313 | - | 28,313 | - |
| Unrestricted investment earnings | 52,792 | 190 | 52,982 | 55,997 |
| Payment from State of Montana | - | - | - | 138,437 |
| Gain on sale of capital assets | 34 | - | 34 | - |
| Miscellaneous | 4,358 | 2,945 | 7,303 | 11 |
| Contributions to term and permanent endowments | - | - | - | 13,208 |
| Transfers | 29,871 | (29,871) | - | - |
| Total general revenues, contributions, and transfers | 1,773,036 | (11,112) | 1,761,924 | 207,759 |
| Change in net assets | 642,463 | 30,624 | 673,087 | 66,811 |
| Total net assets - July 1 - as previously reported | 4,331,094 | 236,307 | 4,567,401 | 874,008 |
| Prior period adjustments (Note 2) | 119,160 | (75) | 119,085 | 2,470 |
| Total net assets - July 1 - as restated | 4,450,254 | 236,232 | 4,686,486 | 876,478 |
| Total net assets - June 30 | \$ 5,092,717 | \$ 266,856 | \$ 5,359,573 | \$ 943,289 |

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(expressed in thousands)

| | SPECIAL REVENUE | | | PERMANENT | | | |
|---|-----------------|--------------|------------|--------------------------|---------------|------------|--------------|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | NONMAJOR | TOTAL |
| ASSETS | | | | | | | |
| Cash/cash equivalents (Note 3) | \$ 306,333 | \$ 409,013 | \$ 39,523 | \$ 63,721 | \$ 13,370 | \$ 31,750 | \$ 863,710 |
| Receivables (net) (Note 4) | 185,653 | 65,049 | 7,985 | 9,439 | 5,468 | 5,528 | 279,122 |
| Interfund loans receivable (Note 12) | 19,300 | 13,365 | 550 | - | - | - | 33,215 |
| Due from other governments | 2 | 248 | 114,235 | - | - | - | 114,485 |
| Due from other funds (Note 12) | 40,020 | 17,762 | 617 | 4 | - | 589 | 58,992 |
| Due from component units | 539 | 698 | 82 | 76 | - | - | 1,395 |
| Inventories | 2,604 | 21,999 | - | - | - | - | 24,603 |
| Equity in pooled investments (Note 3) | - | 225,427 | - | 465,601 | 433,049 | 191,811 | 1,315,888 |
| Long-term loans/notes receivable | 30 | 194,844 | 297 | - | - | 30,906 | 226,077 |
| Advances to other funds (Note 12) | 100 | 14,506 | - | 44,241 | - | 2,826 | 61,673 |
| Advances to component units | - | - | - | 8,881 | - | - | 8,881 |
| Investments (Note 3) | 15,480 | 154,839 | 2,129 | 159,389 | - | 13,159 | 344,996 |
| Securities lending collateral (Note 3) | - | 40,160 | - | 55,772 | 51,873 | 24,430 | 172,235 |
| Other assets | 2,594 | 1,130 | 397 | - | - | 13 | 4,134 |
| Total assets | \$ 572,655 | \$ 1,159,040 | \$ 165,815 | \$ 807,124 | \$ 503,760 | \$ 301,012 | \$ 3,509,406 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable (Note 4) | 137,459 | 94,715 | 84,651 | - | 5,344 | 2,102 | 324,271 |
| Interfund loans payable (Note 12) | - | 2,249 | 28,623 | - | - | 382 | 31,254 |
| Due to other governments | 1,913 | 1,135 | 11,584 | - | - | - | 14,632 |
| Due to other funds (Note 12) | 16,398 | 27,962 | 3,180 | 6,459 | - | 2,730 | 56,729 |
| Due to component units | 14,793 | 484 | 1,296 | - | - | 3 | 16,576 |
| Advances from other funds (Note 12) | - | 56,667 | 2,250 | - | - | 12,371 | 71,288 |
| Deferred revenue | 81,127 | 24,489 | 6,419 | 35 | - | 10 | 112,080 |
| Amounts held in custody for others | 21,172 | 3,669 | 422 | - | 109 | - | 25,372 |
| Securities lending liability (Note 3) | - | 40,160 | - | 55,772 | 51,873 | 24,430 | 172,235 |
| Other liabilities | - | 133 | - | - | - | - | 133 |
| Total liabilities | 272,862 | 251,663 | 138,425 | 62,266 | 57,326 | 42,028 | 824,570 |
| Fund balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 6,718 | 13,063 | 1,300 | - | - | - | 21,081 |
| Inventories | 2,604 | 21,999 | - | - | - | - | 24,603 |
| Long-term loans/notes receivable | 30 | 187,767 | 297 | - | - | 30,906 | 219,000 |
| Advances to other funds/component units | 100 | 14,506 | - | 53,122 | - | 2,826 | 70,554 |
| Special revenue (Note 14) | - | 719,550 | 27,295 | - | - | - | 746,845 |
| Debt service | - | - | - | - | - | 5,960 | 5,960 |
| Trust principal (Note 14) | - | - | - | 691,736 | 446,434 | 205,115 | 1,343,285 |
| Escheated property | 666 | - | - | - | - | - | 666 |
| Unreserved, designated, reported in nonmajor (Note 1): | | | | | | | |
| Debt service funds | - | - | - | - | - | 8,553 | 8,553 |
| Unreserved, undesignated | 289,675 | (49,508) | (1,502) | - | - | - | 238,665 |
| Unreserved, undesignated, reported in nonmajor: | | | | | | | |
| Debt service funds | - | - | - | - | - | (3,097) | (3,097) |
| Capital projects funds | - | - | - | - | - | 8,721 | 8,721 |
| Total fund balances | 299,793 | 907,377 | 27,390 | 744,858 | 446,434 | 258,984 | 2,684,836 |
| Total liabilities and fund balances | \$ 572,655 | \$ 1,159,040 | \$ 165,815 | \$ 807,124 | \$ 503,760 | \$ 301,012 | \$ 3,509,406 |

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2005

(expressed in thousands)

Total fund balances for governmental funds \$ 2,684,836

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore not reported in the funds.

| | | |
|-------------------------------|--------------------|-----------|
| Land | 354,622 | |
| Land improvements | 16,301 | |
| Buildings/improvements | 363,438 | |
| Equipment | 73,625 | |
| Infrastructure | 3,265,389 | |
| Other capital assets | 73,581 | |
| Construction in progress | 198,464 | |
| Intangible assets | 71,493 | |
| Less accumulated depreciation | <u>(1,697,803)</u> | |
| Total capital assets | | 2,719,110 |

Certain tax revenues are earned, but not available and therefore deferred
in the funds. 89,338

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and central computer services, to
individual funds. The assets and liabilities of the internal service funds
are included in the governmental activities in the statement of net assets. 95,301

Deferred issue costs are reported as current expenditures in the funds.
These costs are amortized over the life of the bonds and included
in governmental activities in the statement of net assets. 2,682

Long-term liabilities, including bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

| | | |
|------------------------------------|--------------|------------------|
| Accrued interest | (5,311) | |
| Lease/installment purchase payable | (1,848) | |
| Bonds/notes payable (net) | (421,609) | |
| Compensated absences payable | (68,941) | |
| Early retirement benefits payable | (55) | |
| Arbitrage rebate tax payable | (53) | |
| Other liabilities | <u>(733)</u> | |
| Total long-term liabilities | | <u>(498,550)</u> |

Net assets of governmental activities \$ 5,092,717

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expresses in thousands)

| | SPECIAL REVENUE | | | PERMANENT | | NONMAJOR | TOTAL |
|---|-----------------|------------|-----------|--------------------------|---------------|------------|--------------|
| | GENERAL | STATE | FEDERAL | COAL SEVERANCE TAX | LAND GRANT | | |
| REVENUES | | | | | | | |
| Licenses/permits | \$ 128,008 | \$ 116,676 | \$ - | \$ - | \$ 188 | \$ 372 | \$ 245,244 |
| Taxes: | | | | | | | |
| Natural resource | 80,475 | 85,703 | - | 20,170 | - | 6,242 | 192,590 |
| Individual income | 702,526 | 1,109 | - | - | - | - | 703,635 |
| Corporate income | 97,915 | - | - | - | - | - | 97,915 |
| Property | 173,636 | 12,593 | - | - | - | - | 186,229 |
| Fuel | - | 190,885 | - | - | - | 12 | 190,897 |
| Other (Note 1) | 200,665 | 54,099 | - | - | - | 1,828 | 256,592 |
| Charges for services/fines/forfeits/settlements | 32,464 | 75,759 | 24,968 | - | 1 | 12,043 | 145,235 |
| Investment earnings | 10,635 | 27,551 | 474 | 48,117 | 34,392 | 22,768 | 143,937 |
| Securities lending income | 1,436 | 1,033 | - | 1,134 | 1,060 | 506 | 5,169 |
| Sale of documents/merchandise/property | 393 | 4,938 | 2 | - | 14,699 | 2,623 | 22,655 |
| Rentals/leases/royalties | 60 | 1,105 | - | - | 42,428 | 130 | 43,723 |
| Contributions/premiums | - | 7,744 | - | - | - | - | 7,744 |
| Grants/contracts/donations | 2,761 | 25,126 | 38 | - | 40 | 19 | 27,984 |
| Federal | 27,327 | 11,581 | 1,464,031 | - | - | - | 1,502,939 |
| Federal indirect cost recoveries | 158 | 34,211 | 46,681 | - | - | - | 81,050 |
| Other revenues | 302 | 3,683 | 294 | - | - | 61 | 4,340 |
| Total revenues | 1,458,761 | 653,796 | 1,536,488 | 69,421 | 92,808 | 46,604 | 3,857,878 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | 186,820 | 93,574 | 5,621 | - | - | 7,793 | 293,808 |
| Public safety/corrections | 142,010 | 41,138 | 50,413 | - | - | 5,368 | 238,929 |
| Transportation | 200 | 212,275 | 310,547 | - | - | - | 523,022 |
| Health/social services | 280,235 | 63,484 | 842,734 | - | - | 9 | 1,186,462 |
| Education/cultural | 653,850 | 78,471 | 172,821 | - | - | 8 | 905,150 |
| Resource/recreation/environment | 36,862 | 108,881 | 56,339 | - | 4,590 | 231 | 206,903 |
| Economic development/assistance | 22,646 | 58,372 | 65,288 | - | - | - | 146,306 |
| Debt service: | | | | | | | |
| Principal retirement | 612 | 430 | 197 | - | - | 25,964 | 27,203 |
| Interest/fiscal charges | 122 | 1,141 | 29 | - | - | 12,879 | 14,171 |
| Capital outlay | 1,352 | 28,079 | 25,065 | - | - | 16,355 | 70,851 |
| Securities lending | 1,375 | 978 | - | 1,072 | 1,002 | 478 | 4,905 |
| Total expenditures | 1,326,084 | 686,823 | 1,529,054 | 1,072 | 5,592 | 69,085 | 3,617,710 |
| Excess of revenue over (under) expenditures | 132,677 | (33,027) | 7,434 | 68,349 | 87,216 | (22,481) | 240,168 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Bonds issued | - | 133,710 | - | - | - | 1,670 | 135,380 |
| Refunding bonds issued | - | 5,070 | - | - | - | 25,000 | 30,070 |
| Bond premium | - | 6,654 | - | - | - | 1,452 | 8,106 |
| Payment to refunding bond escrow agent | - | - | - | - | - | (31,018) | (31,018) |
| Inception of lease/installment contract | 264 | 131 | 122 | - | - | - | 517 |
| General capital asset sale proceeds | 8 | 158 | 3 | - | - | - | 169 |
| Transfers in (Note 12) | 71,866 | 140,591 | 2,756 | 3,006 | - | 55,432 | 273,651 |
| Transfers out (Note 12) | (44,438) | (39,564) | (14,598) | (46,870) | (77,728) | (21,670) | (244,868) |
| Total other financing sources (uses) | 27,700 | 246,750 | (11,717) | (43,864) | (77,728) | 30,866 | 172,007 |
| Net change in fund balances | 160,377 | 213,723 | (4,283) | 24,485 | 9,488 | 8,385 | 412,175 |
| Fund balances - July 1 - as previously reported | 141,776 | 694,159 | 31,396 | 720,373 | 436,902 | 250,590 | 2,275,196 |
| Prior period adjustments (Note 2) | (2,299) | 463 | 277 | - | 44 | 9 | (1,506) |
| Fund balances - July 1 - as restated | 139,477 | 694,622 | 31,673 | 720,373 | 436,946 | 250,599 | 2,273,690 |
| Increase (decrease) in inventories | (61) | (968) | - | - | - | - | (1,029) |
| Fund balances - June 30 | \$ 299,793 | \$ 907,377 | \$ 27,390 | \$ 744,858 | \$ 446,434 | \$ 258,984 | \$ 2,684,836 |

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

JUNE 30, 2005

(expressed in thousands)

Net change in fund balances - total governmental funds \$ 412,175

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

| | | |
|--|-----------|---------|
| Capital outlay | 399,491 | |
| Depreciation expense | (118,720) | |
| Excess of capital outlay over depreciation expense | | 280,771 |

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (4,204)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. (529)

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. (1,029)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 37,549

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 21,640

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

| | | |
|---|-----------|-----------|
| Bonds issued | (135,380) | |
| Refunding bonds issued | (30,070) | |
| Bond premium | (8,106) | |
| Payment to refunding bond escrow agent | 31,018 | |
| Capital lease financing | (517) | |
| Principal retirement | 27,203 | |
| Issuance costs deferral | 947 | |
| Bond issuance costs amortization | (194) | |
| Bond refunding loss amortization | (693) | |
| Bond discount amortization | (4) | |
| Bond premium amortization | 306 | |
| Total long-term debt proceeds/repayment | | (115,490) |

Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

| | | |
|---|--------|-------------------|
| Accrued interest | (234) | |
| Compensated absences | 1,378 | |
| Early retirement benefits | 161 | |
| Arbitrage rebate tax | 25 | |
| Other liabilities | 10,250 | |
| Total additional expenditures | | 11,580 |
| Change in net assets of governmental activities | | <u>\$ 642,463</u> |

The notes to the financial statements are an integral part of this statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|--|--|----------------------------------|-----------|------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash/cash equivalents (Note 3) | \$ 204,133 | \$ 17,151 | \$ 48,140 | \$ 269,424 | \$ 37,376 |
| Receivables (net) (Note 4) | 3,431 | 10,309 | 17,827 | 31,567 | 3,903 |
| Interfund loans receivable (Note 12) | - | - | 9 | 9 | 607 |
| Due from other governments | - | - | 304 | 304 | 2 |
| Due from other funds (Note 12) | - | 3,695 | 136 | 3,831 | 5,475 |
| Due from component units | - | 1,661 | 350 | 2,011 | 454 |
| Inventories | - | - | 6,914 | 6,914 | 2,082 |
| Short-term investments (Note 3) | - | 1,807 | - | 1,807 | - |
| Securities lending collateral (Note 3) | - | - | 410 | 410 | 232 |
| Other current assets | - | - | 293 | 293 | 535 |
| Total current assets | 207,564 | 34,623 | 74,383 | 316,570 | 50,666 |
| Noncurrent assets: | | | | | |
| Restricted investments | - | 4,074 | - | 4,074 | - |
| Advances to other funds (Note 12) | - | 14,013 | 195 | 14,208 | - |
| Advances to component units | - | 6,644 | - | 6,644 | - |
| Long-term investments (Note 3) | - | 18 | 3,256 | 3,274 | 12,898 |
| Long-term notes/loans receivable | - | 34,082 | 308 | 34,390 | - |
| Deferred charges | - | 1,393 | 28 | 1,421 | - |
| Other long-term assets | - | - | 1,618 | 1,618 | - |
| Capital assets (Note 5): | | | | | |
| Land | - | - | 800 | 800 | 236 |
| Land improvements | - | - | 2,343 | 2,343 | 95 |
| Buildings/improvements | - | - | 6,098 | 6,098 | 2,852 |
| Equipment | - | 3 | 10,061 | 10,064 | 183,514 |
| Infrastructure | - | - | 884 | 884 | - |
| Construction in progress | - | - | 868 | 868 | 3,471 |
| Intangible assets | - | - | 661 | 661 | 1,157 |
| Less accumulated depreciation | - | (3) | (12,045) | (12,048) | (104,775) |
| Total capital assets | - | - | 9,670 | 9,670 | 86,550 |
| Total noncurrent assets | - | 60,224 | 15,075 | 75,299 | 99,448 |
| Total assets | 207,564 | 94,847 | 89,458 | 391,869 | 150,114 |

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|--|----------------------------------|-----------|------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable (Note 4) | \$ 342 | \$ 916 | \$ 6,013 | \$ 7,271 | \$ 6,890 |
| Lottery prizes payable | - | - | 1,436 | 1,436 | - |
| Interfund loans payable (Note 12) | - | - | 146 | 146 | 2,431 |
| Due to other governments | - | - | 879 | 879 | - |
| Due to other funds (Note 12) | 65 | 3 | 8,967 | 9,035 | 2,508 |
| Due to component units | - | - | 1 | 1 | 22 |
| Deferred revenue | - | - | 2,742 | 2,742 | 965 |
| Short-term debt (Note 11) | - | 84,280 | - | 84,280 | - |
| Lease/installment purchase payable (Note 10) | - | - | - | - | 118 |
| Bonds/notes payable - net (Note 11) | - | 1,474 | 410 | 1,884 | - |
| Amounts held in custody for others | - | 415 | 100 | 515 | 31 |
| Securities lending liability (Note 3) | - | - | 410 | 410 | 232 |
| Estimated insurance claims (Note 8) | - | - | 7,414 | 7,414 | 16,264 |
| Compensated absences payable (Note 11) | - | 19 | 573 | 592 | 2,470 |
| Total current liabilities | 407 | 87,107 | 29,091 | 116,605 | 31,931 |
| Noncurrent liabilities: | | | | | |
| Lottery prizes payable | - | - | 1,258 | 1,258 | - |
| Advances from other funds (Note 12) | - | - | - | - | 4,412 |
| Lease/installment purchase payable (Note 10) | - | - | - | - | 738 |
| Bonds/notes payable - net (Note 11) | - | 2,434 | 850 | 3,284 | - |
| Estimated insurance claims (Note 8) | - | - | 3,199 | 3,199 | 15,739 |
| Compensated absences payable (Note 11) | - | 24 | 529 | 553 | 1,993 |
| Arbitrage rebate tax payable | - | 114 | - | 114 | - |
| Total noncurrent liabilities | - | 2,572 | 5,836 | 8,408 | 22,882 |
| Total liabilities | 407 | 89,679 | 34,927 | 125,013 | 54,813 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | - | - | 9,670 | 9,670 | 85,694 |
| Restricted for: | | | | | |
| Unemployment Compensation | 207,157 | - | - | 207,157 | - |
| Other Purposes | - | 2,504 | 30,853 | 33,357 | - |
| Unrestricted | - | 2,664 | 14,008 | 16,672 | 9,607 |
| Total net assets | \$ 207,157 | \$ 5,168 | \$ 54,531 | \$ 266,856 | \$ 95,301 |

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expresses in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|--|----------------------------------|-----------|------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| Operating revenues: | | | | | |
| Charges for services | \$ - | \$ 5 | \$ 96,957 | \$ 96,962 | \$ 93,911 |
| Investment earnings | 10,951 | 637 | 863 | 12,451 | 859 |
| Securities lending income | - | - | 12 | 12 | 21 |
| Financing income | - | 2,126 | - | 2,126 | - |
| Contributions/premiums | 72,866 | - | 66,332 | 139,198 | 108,940 |
| Grants/contracts/donations | 7,821 | - | 36,211 | 44,032 | - |
| Taxes | - | - | 15,624 | 15,624 | - |
| Other operating revenues | 2,507 | - | 644 | 3,151 | 1,906 |
| Total operating revenues | 94,145 | 2,768 | 216,643 | 313,556 | 205,637 |
| Operating expenses: | | | | | |
| Personal services | - | 252 | 9,480 | 9,732 | 35,015 |
| Contractual services | - | 32 | 10,027 | 10,059 | 16,913 |
| Supplies/materials | - | 3 | 46,139 | 46,142 | 15,763 |
| Benefits/claims | 71,789 | - | 83,452 | 155,241 | 81,657 |
| Depreciation | - | 1 | 1,707 | 1,708 | 11,276 |
| Amortization | - | - | 287 | 287 | 654 |
| Utilities/rent | - | 41 | 775 | 816 | 8,926 |
| Communications | - | 6 | 1,073 | 1,079 | 9,150 |
| Travel | - | 4 | 184 | 188 | 397 |
| Repair/maintenance | - | - | 429 | 429 | 7,473 |
| Grants | - | - | 1,417 | 1,417 | - |
| Lottery prize payments | - | - | 17,804 | 17,804 | - |
| Interest expense | - | 2,191 | 58 | 2,249 | 271 |
| Securities lending expense | - | - | 11 | 11 | 20 |
| Arbitrage rebate tax | - | 67 | - | 67 | - |
| Dividend expense | - | - | 791 | 791 | - |
| Other operating expenses | 3,502 | 30 | 1,455 | 4,987 | 2,456 |
| Total operating expenses | 75,291 | 2,627 | 175,089 | 253,007 | 189,971 |
| Operating income (loss) | 18,854 | 141 | 41,554 | 60,549 | 15,666 |
| Nonoperating revenues (expenses): | | | | | |
| Gain (loss) on sale of capital assets | - | (3) | (17) | (20) | (754) |
| Federal indirect cost recoveries | - | - | - | - | 4,003 |
| Increase (decrease) value of livestock | - | - | (193) | (193) | - |
| Total nonoperating revenues (expenses) | - | (3) | (210) | (213) | 3,249 |
| Income (loss) before contributions and transfers | 18,854 | 138 | 41,344 | 60,336 | 18,915 |
| Capital contributions | - | - | 1,946 | 1,946 | - |
| Transfers in (Note 12) | - | - | 63 | 63 | 2,915 |
| Transfers out (Note 12) | (2,729) | - | (28,992) | (31,721) | (190) |
| Change in net assets | 16,125 | 138 | 14,361 | 30,624 | 21,640 |
| Total net assets - July 1 - as previously reported | 191,032 | 5,030 | 40,245 | 236,307 | 70,881 |
| Prior period adjustments (Note 2) | - | - | (75) | (75) | 2,780 |
| Total net assets - July 1 - as restated | 191,032 | 5,030 | 40,170 | 236,232 | 73,661 |
| Total net assets - June 30 | \$ 207,157 | \$ 5,168 | \$ 54,531 | \$ 266,856 | \$ 95,301 |

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS |
|---|--|----------------------------------|------------|------------|---|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from sales and services | \$ 71,841 | \$ 5 | \$ 161,783 | \$ 233,629 | \$ 205,979 |
| Payments to suppliers for goods and services | (310) | (119) | (93,493) | (93,922) | (63,536) |
| Payments to employees | - | (238) | (9,480) | (9,718) | (34,954) |
| Grant receipts | 7,923 | - | 36,717 | 44,640 | 3,900 |
| Grant payments | - | - | (1,347) | (1,347) | - |
| Cash payments for claims | (71,366) | - | (48,859) | (120,225) | (87,180) |
| Cash payments for prizes | - | - | (17,974) | (17,974) | - |
| Other operating revenues | 2,552 | - | 620 | 3,172 | 1,636 |
| Other operating payments | - | - | (791) | (791) | - |
| Net cash provided by (used for) operating activities | 10,640 | (352) | 27,176 | 37,464 | 25,845 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Collection of taxes | - | - | 15,623 | 15,623 | - |
| Transfers to other funds | (3,320) | - | (29,667) | (32,987) | (441) |
| Transfers from other funds | - | - | 63 | 63 | 3,049 |
| Proceeds from interfund loans/advances | - | - | 1,847 | 1,847 | 10,748 |
| Payments of interfund loans/advances | (1) | - | (1,852) | (1,853) | (9,217) |
| Payment of external loan | - | - | (200) | (200) | - |
| Collection of principal and interest on loans | - | - | 561 | 561 | - |
| Payment of principal and interest on bonds and notes | - | (10,616) | (445) | (11,061) | (199) |
| Proceeds from issuance of bonds and notes | - | 177 | - | 177 | - |
| Net cash provided by (used for) noncapital financing activities | (3,321) | (10,439) | (14,070) | (27,830) | 3,940 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of capital assets | - | - | (988) | (988) | (16,278) |
| Proceeds from sale of capital assets | - | - | 3 | 3 | 1,483 |
| Principal and interest payments on bonds and notes | - | - | - | - | (120) |
| Net cash used for capital and related financing activities | - | - | (985) | (985) | (14,915) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of investments | - | (1,334) | (497) | (1,831) | (10,000) |
| Proceeds from sales or maturities of investments | - | 23,227 | 674 | 23,901 | 1,350 |
| Proceeds from securities lending transactions | - | - | 12 | 12 | 21 |
| Interest and dividends on investments | 10,951 | 692 | 858 | 12,501 | 876 |
| Payment of securities lending costs | - | - | (11) | (11) | (20) |
| Collections of principal and interest on loans | - | 20,286 | - | 20,286 | - |
| Cash payment for loans | - | (22,371) | - | (22,371) | - |
| Arbitrage rebate tax | - | (92) | - | (92) | - |
| Net cash provided by (used for) investing activities | 10,951 | 20,408 | 1,036 | 32,395 | (7,773) |
| Net increase (decrease) in cash and cash equivalents | 18,270 | 9,617 | 13,157 | 41,044 | 7,097 |
| Cash and cash equivalents, July 1 | 185,863 | 7,535 | 34,983 | 228,381 | 30,279 |
| Cash and cash equivalents, June 30 | \$ 204,133 | \$ 17,152 | \$ 48,140 | \$ 269,425 | \$ 37,376 |

The notes to the financial statements are an integral part of this statement.

| | BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS | | | | GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS | |
|---|--|----------------------------------|-----------|-----------|---|---------|
| | UNEMPLOYMENT INSURANCE | ECONOMIC DEVELOPMENT BONDS | NONMAJOR | TOTAL | | |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | | |
| Operating income (loss) | \$ 18,853 | \$ 141 | \$ 41,554 | \$ 60,548 | \$ | 15,666 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | | | | | | |
| Depreciation | - | 1 | 1,707 | 1,708 | | 11,276 |
| Amortization | - | - | 287 | 287 | | 654 |
| Taxes | - | - | (15,624) | (15,624) | | - |
| Interest expense | - | 2,191 | 58 | 2,249 | | 271 |
| Securities lending expense | - | - | 11 | 11 | | 20 |
| Investment Earnings | (10,951) | (637) | (863) | (12,451) | | (859) |
| Securities lending income | - | - | (12) | (12) | | (21) |
| Financing income | - | (2,126) | - | (2,126) | | - |
| Federal indirect cost recoveries | - | - | - | - | | 4,003 |
| Arbitrage rebate tax | - | 67 | - | 67 | | - |
| Change in assets and liabilities: | | | | | | |
| Decr (incr) in accounts receivable | 2,780 | - | (988) | 1,792 | | 2,099 |
| Decr (incr) in due from other funds | 1 | - | 100 | 101 | | 671 |
| Decr (incr) in due from component units | - | - | (82) | (82) | | 75 |
| Decr (incr) in due from other governments | - | - | (81) | (81) | | 1 |
| Decr (incr) in inventories | - | - | (72) | (72) | | (1,263) |
| Decr (incr) in other assets | - | - | (17) | (17) | | (14) |
| Incr (decr) in accounts payable | 288 | (4) | (173) | 111 | | (1,169) |
| Incr (decr) in lottery prizes payable | - | - | (118) | (118) | | - |
| Incr (decr) in due to other funds | - | (3) | (45) | (48) | | (548) |
| Incr (decr) in due to component units | - | - | - | - | | (28) |
| Incr (decr) in due to other governments | - | - | 586 | 586 | | - |
| Incr (decr) in deferred revenue | - | - | (737) | (737) | | (3) |
| Incr (decr) in amounts held in custody for others | (331) | - | (84) | (415) | | (14) |
| Incr (decr) in compensated absences payable | - | 18 | (101) | (83) | | (222) |
| Incr (decr) in estimated claims | - | - | 1,870 | 1,870 | | (4,750) |
| Net cash provided by (used for) operating activities | \$ 10,640 | \$ (352) | \$ 27,176 | \$ 37,464 | \$ | 25,845 |
| Schedule of noncash transactions: | | | | | | |
| Capital asset acquisitions from capital leases | \$ - | \$ - | \$ - | \$ - | \$ | 793 |
| Amortization of bond issuance costs | - | - | 8 | 8 | | - |
| Incr (decr) in fair value of investments | - | (9) | (22) | (31) | | (31) |
| Total noncash transactions | \$ - | \$ (9) | \$ (14) | \$ (23) | \$ | 762 |

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(expressed in thousands)

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE- PURPOSE TRUST FUNDS | INVESTMENT TRUST | AGENCY FUNDS |
|--|--|------------------------------------|---------------------|-----------------|
| ASSETS | | | | |
| Cash/cash equivalents (Note 3) | \$ 109,529 | \$ 2,481 | \$ 580,876 | \$ 8,258 |
| Receivables (net): | | | | |
| Accounts receivable | 17,080 | 8 | - | 659 |
| Interest | 14,673 | - | - | - |
| Due from primary government | 14,732 | - | - | - |
| Due from other PERB plans | 350 | - | - | - |
| Long-term loans/notes receivable | 167 | - | - | - |
| Total receivables | 47,002 | 8 | - | 659 |
| Investments at fair value: | | | | |
| Equity in pooled investments (Note 3) | 6,137,767 | - | - | - |
| Other investments (Note 3) | 374,871 | - | - | - |
| Total investments | 6,512,638 | - | - | - |
| Securities lending collateral (Note 3) | 277,755 | - | - | - |
| Capital Assets: | | | | |
| Land | 35 | - | - | - |
| Buildings/improvements | 158 | - | - | - |
| Equipment | 152 | - | - | - |
| Accumulated depreciation | (264) | - | - | - |
| Intangible assets | 1,187 | - | - | - |
| Total capital assets | 1,268 | - | - | - |
| Other assets | 21 | 7,131 | - | 12,201 |
| Total assets | 6,948,213 | 9,620 | 580,876 | 21,118 |
| LIABILITIES | | | | |
| Accounts payable | 750 | 18 | 529 | 812 |
| Due to primary government | 113 | - | - | - |
| Due to other PERB plans | 350 | - | - | - |
| Due to other funds (Note 12) | 26 | - | - | - |
| Advances from primary government | 1,380 | - | - | - |
| Advances from other funds (Note 12) | 181 | - | - | - |
| Deferred revenue | 62 | - | - | - |
| Amounts held in custody for others | - | - | - | 20,306 |
| Securities lending liability (Note 3) | 277,755 | - | - | - |
| Compensated absences payable | 403 | - | - | - |
| Total liabilities | 281,020 | 18 | 529 | 21,118 |
| NET ASSETS | | | | |
| Held in trust for pension benefits and other purposes | \$ 6,667,193 | \$ 9,602 | \$ 580,347 | \$ - |

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

| | PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS | PRIVATE- PURPOSE TRUST FUNDS | INVESTMENT TRUST |
|--|--|------------------------------------|---------------------|
| ADDITIONS | | | |
| Contributions/premiums: | | | |
| Employer | \$ 135,929 | \$ - | \$ - |
| Employee | 150,499 | - | - |
| Other contributions | 17,961 | - | 1,084,719 |
| Net investment earnings: | | | |
| Investment earnings | 509,649 | 32 | 12,328 |
| Administrative investment expense | (9,869) | - | - |
| Securities lending income | 6,369 | - | - |
| Securities lending expense | (5,922) | - | - |
| Charges for services | 345 | - | - |
| Other additions | 195 | 4,000 | - |
| Transfers in | 150 | - | - |
| Total additions | 805,306 | 4,032 | 1,097,047 |
| DEDUCTIONS | | | |
| Benefits | 359,329 | - | - |
| Refunds | 20,393 | - | - |
| Distributions | - | 2,453 | 1,118,611 |
| Administrative expenses: | | | |
| Personal services | 2,311 | - | - |
| Contractual services | 2,283 | - | - |
| Supplies/materials | 75 | - | - |
| Depreciation | 5 | - | - |
| Amortization | 403 | - | - |
| Utilities/rent | 250 | - | - |
| Communications | 174 | - | - |
| Travel | 49 | - | - |
| Repair/maintenance | 55 | - | - |
| Grants | - | 4 | - |
| Interest expense | 51 | - | - |
| Other operating expenses | 349 | - | - |
| Local assistance | 11 | - | - |
| Transfers to ORP | 159 | - | - |
| Transfers to PERS-DCRP | 914 | - | - |
| Total deductions | 386,811 | 2,457 | 1,118,611 |
| Change in net assets | 418,495 | 1,575 | (21,564) |
| Net assets - July 1 - as previously reported | 6,248,441 | 8,035 | 601,911 |
| Prior period adjustments (Note 2) | 257 | (8) | - |
| Net assets - July 1 - as restated | 6,248,698 | 8,027 | 601,911 |
| Net assets - June 30 | \$ 6,667,193 | \$ 9,602 | \$ 580,347 |

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2005

(expressed in thousands)

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | STATE COMPENSATION INSURANCE (NEW FUND) | STATE COMPENSATION INSURANCE (OLD FUND) |
|---|----------------------|----------------------------------|--|--|
| ASSETS | | | | |
| Cash/cash equivalents (Note 3) | \$ 5,772 | \$ 1,943 | \$ 32,157 | \$ 12,207 |
| Receivables (net) | 16,477 | 237 | 12,930 | 704 |
| Due from primary government | 5 | - | 2 | - |
| Due from other governments | 33 | - | - | - |
| Due from component units | - | - | 702 | 212 |
| Inventories | - | - | - | - |
| Long-term loans/notes receivable | 662,373 | 338 | 36 | - |
| Equity in pooled investments (Note 3) | - | - | - | - |
| Investments (Note 3) | 216,347 | - | 656,029 | 51,353 |
| Securities lending collateral (Note 3) | - | - | 101,859 | 17,769 |
| Deferred charges | 7,434 | - | - | - |
| Capital assets (net) (Note 5) | 81 | 1 | 4,690 | - |
| Other assets | 209 | 1 | 8,429 | - |
| Total assets | 908,731 | 2,520 | 816,834 | 82,245 |
| LIABILITIES | | | | |
| Accounts payable | 4,117 | 9 | 13,690 | 245 |
| Due to primary government | 25 | 2 | 1,072 | 1 |
| Due to other governments | 33 | - | - | - |
| Due to component units | - | - | 212 | 702 |
| Advances from primary government | - | - | - | - |
| Deferred revenue | - | - | 4,926 | - |
| Amounts held in custody for others | 3 | - | 13,055 | - |
| Securities lending liability (Note 3) | - | - | 101,859 | 17,769 |
| Other liabilities | - | - | - | - |
| Long-term liabilities (Note 11): | | | | |
| Due within one year | 10,367 | 13 | 111,875 | 10,322 |
| Due in more than one year | 756,226 | 12 | 401,471 | 68,787 |
| Total liabilities | 770,771 | 36 | 648,160 | 97,826 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 81 | - | 4,690 | - |
| Restricted for: | | | | |
| Federal grants | - | - | - | - |
| Debt service/construction | - | - | - | - |
| Funds held as permanent investments: | | | | |
| Nonexpendable | - | - | - | - |
| Housing authority | 137,879 | - | - | - |
| Other purposes | - | - | - | - |
| Unrestricted | - | 2,484 | 163,984 | (15,581) |
| Total net assets | \$ 137,960 | \$ 2,484 | \$ 168,674 | \$ (15,581) |

The notes to the financial statements are an integral part of this statement.

| MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|--------------------------------|-----------------------------|------------|
| \$ 88,504 | \$ 60,906 | \$ 201,489 |
| 16,473 | 21,848 | 68,669 |
| 854 | 1,007 | 1,868 |
| 12,254 | 8,618 | 20,905 |
| 191 | 457 | 1,562 |
| 2,799 | 1,732 | 4,531 |
| 17,015 | 9,317 | 689,079 |
| 10,044 | 7,048 | 17,092 |
| 146,499 | 158,156 | 1,228,384 |
| 1,203 | 730 | 121,561 |
| - | - | 7,434 |
| 249,731 | 244,710 | 499,213 |
| 5,440 | 4,146 | 18,225 |
| 551,007 | 518,675 | 2,880,012 |
| 16,871 | 19,311 | 54,243 |
| 1,597 | 1,050 | 3,747 |
| 8,469 | 23 | 8,525 |
| 458 | 190 | 1,562 |
| 8,688 | 5,457 | 14,145 |
| 8,623 | 10,600 | 24,149 |
| 3,917 | 1,995 | 18,970 |
| 1,203 | 730 | 121,561 |
| 3,593 | 5,961 | 9,554 |
| 16,838 | 12,629 | 162,044 |
| 138,326 | 153,401 | 1,518,223 |
| 208,583 | 211,347 | 1,936,723 |
| 158,792 | 110,945 | 274,508 |
| - | 21 | 21 |
| 15,538 | 17,126 | 32,664 |
| 78,812 | 101,256 | 180,068 |
| - | - | 137,879 |
| 35,060 | 46,460 | 81,520 |
| 54,222 | 31,520 | 236,629 |
| \$ 342,424 | \$ 307,328 | \$ 943,289 |

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

| | HOUSING AUTHORITY | FACILITY FINANCE AUTHORITY | STATE COMPENSATION INSURANCE (NEW FUND) | STATE COMPENSATION INSURANCE (OLD FUND) |
|--|----------------------|----------------------------------|--|--|
| EXPENSES | \$ 42,460 | \$ 276 | \$ 202,930 | \$ 10,555 |
| PROGRAM REVENUES: | | | | |
| Charges for services | 219 | 280 | 189,430 | - |
| Operating grants and contributions | 48,636 | 62 | - | - |
| Capital grants and contributions | - | - | - | - |
| Total program revenues | 48,855 | 342 | 189,430 | - |
| Net (expenses) program revenues | 6,395 | 66 | (13,500) | (10,555) |
| GENERAL REVENUES: | | | | |
| Unrestricted grants and contributions | - | - | - | - |
| Unrestricted investment earnings | - | - | 39,402 | 2,417 |
| Payment from State of Montana | - | - | - | - |
| Miscellaneous | 11 | - | - | - |
| Contributions to term and permanent endowments | - | - | - | - |
| Total general revenues and contributions | 11 | - | 39,402 | 2,417 |
| Change in net assets | 6,406 | 66 | 25,902 | (8,138) |
| Total net assets - July 1 - as previously reported | 131,554 | 2,418 | 142,772 | (7,443) |
| Prior period adjustments (Note 2) | - | - | - | - |
| Total net assets - July 1 - as restated | 131,554 | 2,418 | 142,772 | (7,443) |
| Total net assets - June 30 | \$ 137,960 | \$ 2,484 | \$ 168,674 | \$ (15,581) |

The notes to the financial statements are an integral part of this statement.

| MONTANA STATE UNIVERSITY | UNIVERSITY OF MONTANA | TOTAL |
|---|--------------------------------------|--------------|
| \$ 372,205 | \$ 293,932 | \$ 922,358 |
| 149,688 | 129,659 | 469,276 |
| 148,435 | 108,069 | 305,202 |
| 4,554 | 2,378 | 6,932 |
| 302,677 | 240,106 | 781,410 |
| (69,528) | (53,826) | (140,948) |
| 106 | - | 106 |
| 4,044 | 10,134 | 55,997 |
| 79,996 | 58,441 | 138,437 |
| - | - | 11 |
| 4,280 | 8,928 | 13,208 |
| 88,426 | 77,503 | 207,759 |
| 18,898 | 23,677 | 66,811 |
| 323,151 | 281,556 | 874,008 |
| 375 | 2,095 | 2,470 |
| 323,526 | 283,651 | 876,478 |
| \$ 342,424 | \$ 307,328 | \$ 943,289 |

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discretely Presented Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3rd Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

Fiduciary Fund Component Units

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement

System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

A. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are: licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by

segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its

fees to funds of the primary government, and as such, is reported as an internal service fund.

Fiduciary Funds

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds provide retirement, disability, death, and lump-sum payments to retirement plan members.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Major Governmental Funds

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

Major Enterprise Funds

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the

State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

D. Proprietary Activity Accounting and Financial Reporting

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

E. Cash/Cash Equivalents

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

F. Receivables

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

G. Inventories

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

H. Restricted Assets

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond indenture agreements.

I. Equity in Pooled Investments

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific trusts established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the Balance Sheet within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

J. Investments

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for

each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

K. Capital Assets

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

L. Deferred Revenue

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

M. Long-term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

N. Capital Leases

A capital lease is generally defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability is recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

O. Bond Discounts/Premiums/Issuance Costs

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund

types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

P. Compensated Absences

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2004, was 2,172 hours. For fiscal year 2005, 5,601 hours were contributed to the sick leave pool and 6,185 hours were withdrawn leaving a balance of 1,588 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent

tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reported restricted net assets (in thousands) of \$2,399,699 of which \$431,243 is restricted by enabling legislation.

S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

| | General Fund | State Special Revenue Fund | Nonmajor Governmental Funds | Total |
|---------------------------|------------------|----------------------------------|-----------------------------------|------------------|
| Accommodations | \$ 9,957 | \$14,193 | \$ - | \$ 24,150 |
| Agriculture sales | - | 3,125 | - | 3,125 |
| Cigarette/tobacco | 39,087 | 20,226 | 1,828 | 61,141 |
| Fire protection | - | 2,513 | - | 2,513 |
| Insurance premium | 57,090 | - | - | 57,090 |
| Livestock | - | 3,216 | - | 3,216 |
| Other taxes | 20,736 | 7,615 | - | 28,351 |
| Public Service Commission | - | 3,171 | - | 3,171 |
| Telephone license | 21,211 | - | - | 21,211 |
| Video gaming | 52,584 | 40 | - | 52,624 |
| Total other taxes | \$200,665 | \$54,099 | \$1,828 | \$256,592 |

NOTE 2. OTHER ACCOUNTING ISSUES

A. New Accounting Guidance Implemented

For the year ended June 30, 2005, the State implemented GASB Statement 40, Deposit and Investment Risk Disclosure, an amendment of GASB Statement 3. As a result, the disclosure related to deposit and investment risks were changed. These changes are reflected in Note 3.

GASB Statement 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB 34, was early implemented with the year ended June 30, 2005. Statement 46 clarifies when net assets should be considered restricted based upon enabling legislation. In addition, the statement requires this portion of restricted net assets to be disclosed in the notes to the financial statements. Refer to Note 1, part R.

B. Prior Period Adjustments

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Net Assets, and related to various capital asset corrections and corrections made to adjust additional governmental fund revenue from the modified to the full accrual basis of accounting.

NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS

This note details the following asset classifications (in thousands):

| | |
|------------------------------|-------------|
| Cash/cash equivalents | \$2,073,145 |
| Equity in pooled investments | \$7,470,748 |
| Investments | \$1,970,303 |

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2005.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities including: U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals, equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations

explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADRs are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives "derive" their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company's current management team. Mezzanine investments are the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options. Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely liquid.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI's custodial

bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State's agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amounts the borrowers owe the system.

B. Cash/Cash Equivalents

(1) Cash Deposits – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

Table 1 - Cash Deposit Amounts
(in thousands)

| | Carrying Amount |
|-------------------------------------|----------------------------|
| Cash held by State/State's agent | \$ 24,250 |
| Uninsured and uncollateralized cash | 4,822 |
| Undeposited cash | 4,334 |
| Cash in U.S. Treasury | 205,163 |
| Cash in MSU component units | 3,387 |
| Cash in UM component units | 2,881 |
| Less: outstanding warrants | (54,007) |
| Total cash deposits | \$190,830 |

As of June 30, 2005, the carrying amount of deposits for component units was \$94,686,731, as included in Table 1.

(2) Cash Equivalents – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the Treasurer’s Cash Pool, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

Table 2 - Cash Equivalents
(in thousands)

| | Fair Value | Credit Quality Rating | Fund |
|--|--------------------|-----------------------------|---------|
| Commercial paper | \$1,249,527 | A1 | Various |
| Corporate fixed | 49,821 | A1+ | Various |
| Corporate variable-rate | 414,952 | A1+ | Various |
| Municipal variable-rate | 6,000 | NR | Various |
| Repurchase agreement (1) | 22,000 | A3 | Various |
| Repurchase agreement (2) | 16,542 | NR | Various |
| Government direct-indirect | 267,578 | AAA | Various |
| Money market | 33,120 | NR | Various |
| Less: STIP included in pooled investment balance | (177,225) | | |
| Total cash equivalents | <u>\$1,882,315</u> | | |
| Securities lending collateral investment pool | <u>\$ -</u> | | |

(1) As of June 30, 2005, the State Street Bank repurchase agreement was collateralized at a fair value of \$22 million by a \$17.1 million par, 6.375% coupon, U.S. government Treasury bond maturing August 15, 2027.

(2) As of June 30, 2005, the U.S. Bank repurchase agreement, per contract, was collateralized at 102% for \$16,874,485 by Federal Home Loan Mortgage Corporation REMICs maturing September 15, 2032 and November 12, 2033. These securities carry a AAA credit quality rating.

As of June 30, 2005, local governments invested \$580,347,134 in STIP.

As of June 30, 2005, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$303,233,562, as included in Table 2.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment’s policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2005. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board’s custodial bank, State Street Bank, or the State’s name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The STIP Investment Policy Statement

does not specifically address concentration of credit risk. The policy does provide for “a minimum of three (3%) percent or \$15 million, whichever is higher, to be invested in repurchase agreements.” As of June 30, 2005, there were no single issuer investments that exceeded 5% of the STIP portfolio.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a “2a-7-like pool”.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card

receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2005, Montana was not aware of any legal risks regarding any investments.

C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), and Montana Private Equity Pool (MPEP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle".

Table 3 – Equity in Pooled Investments
(in thousands)

| | Carrying Amount | Fair Value |
|---------------------------------------|----------------------------|-----------------------|
| MDEP: | | |
| Common Stock Pool | \$1,264,857 | \$1,501,726 |
| Equity Index Fund | 1,039,696 | 1,132,427 |
| DFA Small Cap Subtrust | 177,282 | 243,808 |
| MidCap Equity Index Fund | 100,000 | 106,617 |
| SPIFF | 27,368 | 27,335 |
| TFBP: | | |
| Corporate bonds (rated) | 624,288 | 665,537 |
| Corporate bonds (unrated) | 5,956 | 5,956 |
| Foreign government bonds | 9,924 | 10,435 |
| Municipal government bonds (unrated) | 6,122 | 6,123 |
| U.S. government direct-backed | 114,906 | 120,326 |
| U.S. government indirect-backed | 441,037 | 455,263 |
| Repurchase agreement (rated) | 3,308 | 3,308 |
| STIP | 64,747 | 64,747 |
| RFBP: | | |
| Corporate bonds (rated) | 838,067 | 894,556 |
| Corporate bonds (unrated) | 19,289 | 19,538 |
| Foreign government bonds | 4,962 | 5,218 |
| U.S. government direct-backed | 180,694 | 188,790 |
| U.S. government indirect-backed | 587,411 | 605,801 |
| Repurchase agreement | 9,924 | 9,924 |
| STIP | 112,478 | 112,478 |
| MTIP: | | |
| BGI MSCI Europe Index | 384,025 | 466,247 |
| BOI MSCI Pacific Index | 40,005 | 50,628 |
| DFA International Small Company | 75,484 | 76,554 |
| SPIFF | 2,123 | 2,111 |
| Schroder Investment Management | 120,403 | 137,134 |
| Pyford International | 124,335 | 149,790 |
| Nomura Asset Management USA | 93,755 | 111,054 |
| MPEP: | | |
| Private equities | 240,230 | 265,011 |
| State Street SPIFF | 32,151 | 32,180 |
| Repurchase agreement | 447 | 447 |
| Total pooled investments | 6,745,274 | 7,471,070 |
| Pool adjustments (net) | (322) | (322) |
| Total equity in pooled investments | <u>\$6,744,952</u> | <u>\$7,470,748</u> |

At June 30, 2005, the carrying and fair value of the underlying securities on loan was \$412,925,435 and \$428,862,484, respectively. The collateral provided for the securities on loan totaled \$441,186,614.

As of June 30, 2005, component units of the State of Montana had equity in pooled investments with a book value of \$4,410,568,229 and a fair value of \$6,154,858,281, as included in Table 3.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the previous table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The TFBP holds a \$2 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013 and a \$3 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. The RFBP holds \$3 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2013, a \$1.971 million par 10.0% Delta Airlines Corp. bond maturing June 5, 2011 and a \$6 million par 10.14% Delta Airlines Corp. bond maturing August 14, 2012. Due to a weak credit outlook and potential bankruptcy, the board stopped the interest income accruals after the December 2004 and February 2005 pay dates. Although the interest accruals were stopped, the board received the interest due in June 2005 and August 2005. The combined book value of these securities was \$15,943,652 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the book values were reduced to \$7,985,500.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a \$10,757,539 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a \$3,901,307 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp insured bond maturing April 1, 2019 and a \$9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was \$23,611,399 as of June 30, 2005. The RFBP held a \$9,930,036 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020, a \$7,802,614 par 7.935% Northwest Airlines Inc. MBIA Insurance Corp. insured bond maturing April 1, 2019

and a \$5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The combined book value of these securities was \$22,989,339 as of June 30, 2005. On September 14, 2005, the company filed for Chapter 11 bankruptcy protection. Due to this action, the board stopped the interest income accruals for the 6.81% bonds maturing February 1, 2020 after the August 2005 pay date. These issues were sold on September 20, 2005 generating a loss of \$809,221 and \$642,183, for TFBP and RFBP respectively. The sale included accrued interest from August 1, 2005 to September 20, 2005. Since the 7.935% bonds maturing April 1, 2019 is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance, the board did not stop the interest income accrual or reduce book value. The 4.64% bonds maturing July 7, 2010 is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2005, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., \$4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., \$6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$3,739,760 to \$1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received \$969,974 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$169,974. In February 2005 and May 2005, the TFBP received an additional \$139,180 and \$129,498, respectively, for its unsecured claim. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received \$1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$254,961. In February 2005 and May 2005, the RFBP received an additional \$208,771 and \$194,247, respectively, for its unsecured claim. Both the TFBP and RFBP are expected to receive additional proceeds over the next two to three years.

As of June 30, 2004, Winn Dixie presented a higher credit risk to the board. The TFBP held a Winn Dixie Trust, \$64.509 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to \$4.8 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a \$4.231 million gain. The RFBP held a Winn Dixie Trust, \$70 million par, zero coupon bond maturing September 1, 2024. Due to a weak credit outlook and collateral uncertainty, the board stopped accruing income and reduced the book value to \$5.2 million in February 2004. On February 21, 2005, Winn Dixie declared bankruptcy. On February 28, 2005, the board sold the bonds and recorded a \$4.6 million gain.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed income securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, "with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2005, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 8.19%. As of June 30, 2005, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 6.21%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling \$113,944 at amortized cost as of June 30, 2005. The RFBP portfolio holds REMICs totaling \$554,309 in amortized cost as of June 30, 2005. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 are being reduced periodically towards zero according to the expected average life of the underlying mortgages. The IO securities amortized cost is \$3 as of June 30, 2005.

The TFBP holds one inverse variable-rate corporate \$15 million par bond. The RFBP holds one inverse variable-rate corporate \$25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2005, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

TFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|--------------------|------------------------------|---------------------------|
| Corporate bonds (rated) | \$ 665,537 | A- | 5.42 |
| Corporate bonds (unrated) | 5,956 | NR | 2.12 |
| Foreign government bonds | 10,435 | BBB | 6.67 |
| Municipal government bonds | 6,123 | NR | 2.58 |
| U.S. government direct-backed | 120,326 | AAA | 6.14 |
| U.S. government indirect-backed | 455,263 | AAA | 3.86 |
| State Street repurchase agreement (rated) (1) | 3,308 | AA- | NA |
| Total investments | \$1,266,948 | AA- | 4.91 |
| Securities lending collateral investment pool | \$ 159,415 | NR | NA |

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at \$3,389,890 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

RFBP
Credit Quality Rating and Effective Duration as of June 30, 2005
(in thousands)

| Security Investment Type | Fair Value | Credit Quality Rating | Effective Duration |
|---|--------------------|------------------------------|---------------------------|
| Corporate bonds (rated) | \$ 894,556 | A- | 5.75 |
| Corporate bonds (unrated) | 19,538 | NR | 4.07 |
| Foreign government bonds | 5,218 | BBB | 6.67 |
| U.S. government direct-backed | 188,790 | AAA | 4.50 |
| U.S. government indirect-backed | 605,801 | AAA | 3.91 |
| State Street repurchase agreement (rated) (1) | 9,924 | AA- | NA |
| Total fixed income investments | \$1,723,827 | AA- | 4.95 |
| Securities lending collateral investment pool | \$ 214,243 | NR | NA |

(1) At June 30, 2005, the State Street Bank repurchase agreement was collateralized at \$10,169,671 by a AAA-rated Federal Home Loan Mortgage Corporation note maturing February 15, 2006.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

MTIP **Cash by Currency** *(in thousands)*

| Cash | 2005 | |
|--------------------|-----------------|----------------|
| | Carrying Amount | Fair Value |
| Australian Dollar | \$ 132 | \$ 130 |
| Hong Kong Dollar | 125 | 125 |
| Japanese Yen | 1,459 | 1,438 |
| South Korean Won | 4 | 4 |
| Malaysian Ringgit | 7 | 7 |
| New Zealand Dollar | 70 | 68 |
| Philippine Peso | 3 | 3 |
| Singapore Dollar | 1 | 1 |
| New Taiwan Dollar | 195 | 193 |
| Total cash | <u>\$1,996</u> | <u>\$1,969</u> |

The MTIP, through the funds below, has significant investments in 19 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

MTIP **Investment by Security Type** *(in thousands)*

| Security Investment Type | 2005 | |
|---|------------------|------------------|
| | Carrying Amount | Fair Value |
| BGI MSCI Europe Index | \$384,025 | \$466,247 |
| BOI MSCI Pacific Index | 40,005 | 50,628 |
| DFA International Small Company | 75,484 | 76,554 |
| SPIFF | 2,123 | 2,111 |
| Schroder Investment Management | 120,403 | 137,134 |
| Pyford International | 124,335 | 149,790 |
| Nomura Asset Management U.S.A., Inc. | 93,755 | 111,054 |
| Total investments | <u>\$840,130</u> | <u>\$993,518</u> |
| Securities lending collateral investment pool | <u>\$ 34,537</u> | <u>\$ 34,537</u> |

D. Investments

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies:

Long-term Investments

| Department | Percent Administered |
|--|----------------------|
| Board of Investments | 66.87% |
| PERA (Public Employee Retirement Administration) | 14.85 |
| Board of Housing | 12.63 |
| Montana State University/University of Montana | 3.32 |
| Other (1) | 2.33 |
| Total | 100.00% |

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, and the Department of Public Health and Human Services.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

Table 4 – Investments
(in thousands)

| | Carrying Amount | Fair Value | Credit Quality Rating | Effective Duration |
|---|-----------------|-------------|-----------------------|--------------------|
| <u>Rated investments:</u> | | | | |
| AOF Corporate bonds | \$ 338,017 | \$ 344,153 | A | 3.83 |
| AOF U.S. Govt direct-backed | 31,672 | 32,670 | AAA | 3.35 |
| AOF U.S. Govt indirect-backed | 398,645 | 407,110 | AAA | 2.74 |
| Total | \$ 768,334 | \$ 783,933 | | 2.99 |
| <u>MUS Workers Compensation</u> | | | | |
| Municipal bonds | \$ 1,594 | \$ 251 | AA | 1.31 |
| Municipal bonds | | 244 | AA+ | 2.01 |
| Municipal bonds | | 1,060 | AAA | 1.27 |
| Total | | \$ 1,555 | | |
| <u>Non-rated/direct investments:</u> | | | | |
| <u>Primary government</u> | | | | |
| Govt securities | \$ 43,011 | \$ 42,466 | | |
| <u>Component units/fiduciary funds</u> | | | | |
| Govt securities | \$ 267,550 | \$ 272,616 | | |
| Other equities | 227,795 | 236,126 | | |
| Repurchase agreement | 10,350 | 10,350 | | |
| Deferred compensation | 227,637 | 239,143 | | |
| Defined contribution | 21,462 | 24,948 | | |
| VEBA | 490 | 494 | | |
| Investments of MSU component units | 112,244 | 112,244 | | |
| Investments of UM component units | 136,143 | 136,143 | | |
| Real estate | 16,316 | 16,474 | | |
| Mortgages | 92,939 | 93,811 | | |
| Total | \$1,155,937 | \$1,184,815 | | |
| Total investments | \$1,925,865 | \$1,970,303 | | |
| Securities lending collateral investment pool | \$ 200,025 | \$ 200,025 | NR | NA |

The PERS-DCRP and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA investments are made in mutual fund equities and mutual fund fixed-income funds.

Investment Risk Disclosures

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2005, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 19 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 percent in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2005, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 7.58% and to Federal National Mortgage Association of 9.44%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

Specific Legal and Credit Risk

As of June 30, 2005, Delta Airlines Corp. presented a higher credit risk to the board. The AOF portfolio holds a \$10 million par 6.417% Delta Airlines Corp. bond maturing July 2, 2012. The book value of this security was \$9,968,673 as of June 30, 2005. This issue is insured by MBIA Insurance Corp. to support the payment of any interest due and outstanding principal balance. The company filed for Chapter 11 bankruptcy protection on September 14, 2005. Since this issue is insured, the board did not stop interest income accrual or reduce the book value.

As of June 30, 2005, Northwest Airlines Inc. presented a higher credit risk to the board. The AOF portfolio held a \$4,137,515 par 6.81% Northwest Airlines Inc. bond maturing February 1, 2020. The book value of this security was \$4,084,548 as of June 30, 2005. Due to the company's filing for Chapter 11 bankruptcy protection on September 14, 2005, the board stopped the interest income accruals after the August 2005 pay date. This issue was sold on September 20, 2005, generating a loss of \$358,311. The sale included accrued interest from August 1, 2005 to September 20, 2005.

NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2005, follows (amounts in thousands):

A. Receivables

| Receivables | Governmental Funds | | | | | |
|---|--------------------|-----------------------|-------------------------|------------------------------|----------------------|-----------------------|
| | General Fund | State Special Revenue | Federal Special Revenue | Coal Severance Tax Permanent | Land Grant Permanent | Nonmajor Governmental |
| Licenses and permits | \$ 8,116 | \$ 357 | \$ - | \$ - | \$ - | \$ - |
| Taxes | 177,303 | 47,256 | - | 5,372 | - | 1,444 |
| Charges for services/ fines/forfeitures | 51 | 8,443 | 2,802 | - | - | - |
| Investment income | 2,162 | 4,994 | - | 4,067 | 5,468 | 3,299 |
| Contributions/premiums | - | - | - | - | - | - |
| Other | 6,924 | 10,315 | 7,143 | - | - | 785 |
| Total receivables | 194,556 | 71,365 | 9,945 | 9,439 | 5,468 | 5,528 |
| Less: allowance for doubtful accounts | (8,903) | (6,316) | (1,960) | - | - | - |
| Receivables, net | \$185,653 | \$65,049 | \$ 7,985 | \$9,439 | \$5,468 | \$5,528 |

| Receivables | Proprietary Funds | | | |
|---------------------------------------|------------------------|----------------------------|---------------------|------------------|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Charges for services | \$ - | \$ - | \$14,467 | \$ 166 |
| Investment income | - | 10,309 | 20 | 33 |
| Contributions/premiums | 7,155 | - | 3,410 | 3,351 |
| Other | - | - | 133 | 353 |
| Total receivables | 7,155 | 10,309 | 18,030 | 3,903 |
| Less: allowance for doubtful accounts | (3,724) | - | (203) | - |
| Receivables, net | \$ 3,431 | \$10,309 | \$17,827 | \$3,903 |

B. Payables

| Payables | Governmental Funds | | | | | |
|---------------------------------|--------------------|-----------------------|-------------------------|------------------------------|----------------------|-----------------------|
| | General Fund | State Special Revenue | Federal Special Revenue | Coal Severance Tax Permanent | Land Grant Permanent | Nonmajor Governmental |
| Refunds | \$ 82,699 | \$ - | \$ - | \$- | \$ - | \$ - |
| Tax distributions to other govt | - | 33,995 | - | - | - | - |
| Vendors/individuals | 42,568 | 44,134 | 77,634 | - | - | 1,763 |
| Payroll | 11,702 | 12,437 | 5,101 | - | - | 40 |
| Accrued interest | - | - | - | - | 5,344 | 218 |
| Other | 490 | 4,149 | 1,916 | - | - | 81 |
| Total | \$137,459 | \$94,715 | \$84,651 | \$- | \$5,344 | \$2,102 |

| Payables | Proprietary Funds | | | |
|---------------------|------------------------|----------------------------|---------------------|------------------|
| | Unemployment Insurance | Economic Development Bonds | Nonmajor Enterprise | Internal Service |
| Vendors/individuals | \$342 | \$ 1 | \$5,511 | \$4,872 |
| Payroll | - | 10 | 497 | 2,012 |
| Accrued interest | - | 905 | 5 | 6 |
| Total | \$342 | \$916 | \$6,013 | \$6,890 |

NOTE 5. CAPITAL ASSETS

A. Primary Government

Changes in capital asset balances for the fiscal year ended June 30, 2005, are reflected in the following table (in thousands):

Primary Government

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------|--------------|-------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 315,721 | \$ 47,061 | \$ (7,925) | \$ 354,857 |
| Construction work in progress | 179,069 | 189,268 | (166,401) | 201,936 |
| Capitalized collections | 70,021 | 12 | - | 70,033 |
| Total capital assets, not being depreciated | 564,811 | 236,341 | (174,326) | 626,826 |
| Capital assets, being depreciated | | | | |
| Infrastructure | 2,947,719 | 346,156 | (28,486) | 3,265,389 |
| Land improvements | 11,947 | 5,163 | (714) | 16,396 |
| Buildings/improvements | 328,819 | 39,600 | (2,128) | 366,291 |
| Equipment | 245,908 | 34,603 | (23,374) | 257,137 |
| Other | 3,395 | 153 | - | 3,548 |
| Total capital assets, being depreciated | 3,537,788 | 425,675 | (54,702) | 3,908,761 |
| Less: accumulated depreciation for: | | | | |
| Infrastructure | (1,410,841) | (158,912) | 90,285 | (1,479,468) |
| Land improvements | (1,462) | (770) | 89 | (2,143) |
| Buildings/improvements | (149,649) | (11,698) | 509 | (160,838) |
| Equipment | (148,976) | (18,846) | 10,875 | (156,947) |
| Other | (2,980) | (206) | 4 | (3,182) |
| Total accumulated depreciation | (1,713,908) | (190,432) | 101,762 | (1,802,578) |
| Total capital assets, being depreciated, net | 1,823,880 | 235,243 | 47,060 | 2,106,183 |
| Intangible assets | 20,437 | 70,265 | (18,053) | 72,649 |
| Governmental activity capital assets, net | \$ 2,409,128 | \$ 541,849 | \$ (145,319) | \$ 2,805,658 |

Primary Government (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 800 | \$ - | \$ - | \$ 800 |
| Construction work in progress | 254 | 613 | - | 867 |
| Total capital assets, not being depreciated | 1,054 | 613 | - | 1,667 |
| Capital assets, being depreciated | | | | |
| Infrastructure | 884 | - | - | 884 |
| Land improvements | 1,387 | 1,943 | (987) | 2,343 |
| Buildings/improvements | 6,098 | - | - | 6,098 |
| Equipment | 9,876 | 262 | (76) | 10,062 |
| Total capital assets, being depreciated | 18,245 | 2,205 | (1,063) | 19,387 |
| Less: accumulated depreciation for: | | | | |
| Infrastructure | (488) | (17) | - | (505) |
| Land improvements | (1,101) | (18) | 988 | (131) |
| Buildings/improvements | (3,524) | (593) | 363 | (3,754) |
| Equipment | (6,202) | (1,503) | 50 | (7,655) |
| Total accumulated depreciation | (11,315) | (2,131) | 1,401 | (12,045) |
| Total capital assets, being depreciated, net | 6,930 | 74 | 338 | 7,342 |
| Intangible assets | 941 | 8 | (288) | 661 |
| Business-type activity capital assets, net | \$ 8,925 | \$ 695 | \$ 50 | \$ 9,670 |

Depreciation expense was charged to governmental functions as follows (in thousands):

| | Amount |
|--|------------------|
| General government | \$ 7,262 |
| Public safety/corrections | 4,663 |
| Transportation (including depreciation of the highway system maintained by the State) | 96,766 |
| Health/social services | 2,987 |
| Education/cultural | 553 |
| Resource/recreation/environment (including depreciation of the State's dams). | 5,690 |
| Economic development/assistance | 799 |
| Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets. | 11,277 |
| Total depreciation expense – governmental activities | <u>\$129,997</u> |

Depreciation expense was charged to business-type activities as follows (in thousands):

| | Amount |
|---|----------------|
| Liquor Stores | \$ 97 |
| State Lottery | 905 |
| Economic Development Bonds | 1 |
| General Government Services | 100 |
| Prison Funds | 605 |
| Total depreciation expense – business-type activities | <u>\$1,708</u> |

B. Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

Discretely Presented Component Units

| | Montana State University (MSU) | University of Montana (UM) | Other | Total |
|--|---|-------------------------------------|----------|------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 4,240 | \$ 7,126 | \$ - | \$ 11,366 |
| Construction work in progress | 12,033 | 13,365 | 2,661 | 28,059 |
| Capitalized collections | 7,780 | 15,271 | - | 23,051 |
| Livestock for educational purposes | 2,963 | - | - | 2,963 |
| Total capital assets, not being depreciated | 27,016 | 35,762 | 2,661 | 65,439 |
| Capital assets, being depreciated | | | | |
| Infrastructure | 32,128 | - | - | 32,128 |
| Land improvements | 13,287 | 12,220 | - | 25,507 |
| Buildings/improvements | 294,928 | 329,912 | - | 624,840 |
| Equipment | 91,773 | 47,834 | 3,080 | 142,687 |
| Other | 57,412 | 48,031 | - | 105,443 |
| Total capital assets, being depreciated | 489,528 | 437,997 | 3,080 | 930,605 |
| Less: accumulated depreciation | (275,160) | (234,741) | (2,047) | (511,948) |
| Total capital assets, being depreciated, net | 214,368 | 203,256 | 1,033 | 418,657 |
| Intangible assets | 781 | 725 | 1,078 | 2,584 |
| Capital assets (net) of MSU component units | 7,566 | - | - | 7,566 |
| Capital assets (net) of UM component units | - | 4,967 | - | 4,967 |
| Discretely presented component units | | | | |
| Total capital assets, net | \$ 249,731 | \$ 244,710 | \$ 4,772 | \$ 499,213 |

NOTE 6. RETIREMENT PLANS

Defined Contribution Plans

ORP – Optional Retirement Program – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

| | TIAA-CREF <i>(in thousands)</i> |
|----------------------------|---|
| Covered payroll | \$140,561 |
| Total payroll | 301,380 |
| Employer contributions | \$ 6,906 |
| Percent of covered payroll | 4.91% |
| Employee contributions | \$ 9,882 |
| Percent of covered payroll | 7.03% |

PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of \$1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

The PERS-DCRP previously reported an inter-entity loan in the amount of \$114,000 that originated on August 18, 2003. The loan was repaid ahead of schedule in December 2004.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

Deferred Compensation Plan

457 – Deferred Compensation Plan – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2005, the net assets of the plan were \$239,405,278.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable

emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

Defined Benefit Plans

A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued comprehensive annual

financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2005, follows:

| | Retirement Plan | | | | | | | | | |
|-----------------------|-----------------|-----------|-----------|-----------|----------|----------|----------|------------|-----------|------------|
| | PERS-DBRP | MPORS | FURS | SRS | HPORS | JRS | GWPORS | PERS-DCRP | 457 | TRS |
| Employers | | | | | | | | | | |
| State agencies | 35 | | 1 | 1 | 1 | 1 | 5 | 27 | 35 | 8 |
| Counties | 55 | | | 55 | | | | 46 | | |
| Cities/towns | 95 | 22 | 14 | | | | | 40 | | |
| Colleges/universities | 5 | | | | | | 3 | 5 | 6 | 5 |
| School districts | 243 | | | | | | | 79 | 1 | 368 |
| Other | 97 | | | | | | | 33 | 2 | |
| Total | 530 | 22 | 15 | 56 | 1 | 1 | 8 | 230 | 44 | 381 |

B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with both normal cost and amortization of the unfunded

actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

(1) State as the Single Employer

HPORS – Highway Patrol Officers Retirement System

– This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of year the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in September 2005 was \$2,369. This

enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

JRS – Judges Retirement System – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

(2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2005, an additional funding rate of 1.58% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

MPORS – Municipal Police Officers Retirement System – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to be

made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

FURS – Firefighters Unified Retirement System – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

SRS – Sheriffs Retirement System – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 2.69% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

GWPORS – Game Wardens & Peace Officers Retirement System – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it

is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions, an additional funding rate of 0.26% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

VFCA – Volunteer Firefighters Compensation Act –

This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

TRS – Teachers Retirement System – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The plan's actuary has determined that as of July 1, 2005, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$903.3 million is included in the Schedules of Funding Progress. Based on the results of the July 1, 2005 valuation, the TRS Board will recommend options to the Legislature that are considered necessary to remain actuarially sound.

In addition, because actuarial gains and losses are smoothed over five years, only one-fifth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2005, leaving almost \$10 million in unrecognized investment losses, which must be recognized over the next three to four years. Therefore, to remain actuarially sound for future years, the retirement plan will need to incur future gains that would result from a significant recovery in the investment market, a reduction in liabilities, additional increases in contribution rates, or any combination thereof.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

**Schedule of Contribution Rates
Fiscal Year 2005**

| Plan | Member | Employer | State |
|------------------|---|---|---|
| PERS-DBRP | 6.9% [19-3-315, MCA] | 6.9% State & University 6.8% Local Governments [19-3-316, MCA] | 0.1% of local government payroll – paid from the General Fund [19-3-319, MCA] |
| MPORS | 5.8% - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA] 7.0% - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA] 8.5% - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA] 9.0% - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA] | 14.41% [19-9-703, MCA] | 29.37% of salaries – paid from the General Fund [19-9-702, MCA] |
| FURS | 9.5% - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA] 10.7% - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA] | 14.36% [19-13-605, MCA] | 32.61% of salaries – paid from the General Fund [19-13-604, MCA] |
| SRS | 9.245% [19-7-403, MCA] | 9.535% [19-7-404, MCA] | |
| HPORS | 9.0% - hired prior to 7/1/1997 & not electing GABA 9.05% - hired after 6/30/1997 & members electing GABA [19-6-402, MCA] | 26.15% [19-6-404(1), MCA] 10.18% of salaries – paid from driver license fees [19-6-404(2), MCA] | |
| JRS | 7.0% [19-5-402, MCA] | 25.81% [19-5-404, MCA] | |
| GWPORS | 10.56% [19-8-502, MCA] | 9.0% [19-8-504, MCA] | |
| VFCA | | | 5.0% of fire insurance premiums, paid by the General Fund [19-17-301, MCA] |
| PERS-DCRP | 6.9% [19-3-315, MCA] | 6.9% State & University 6.8% Local Governments [19-3-316, MCA] | 0.1% of local government payroll – paid from the General Fund [19-3-319, MCA] |
| TRS | 7.15% [19-20-602, MCA] | 7.47% [19-20-605, MCA] | 0.11% of members' salaries [19-20-604, MCA] |

Summary of Eligibility and Benefits

| Plan | Member's Highest Average Compensation (HAC) | Years of Service Required and/or Age Eligible for Benefit | Vesting |
|-----------|--|---|--|
| PERS-DBRP | Highest average compensation during any consecutive 36 months | Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service | 5 years membership service |
| MPORS | Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – average monthly compensation for last consecutive 36 months | 20 years, regardless of age; age 50, 5 years of service | 5 years membership service |
| FURS | Hired prior to 7/1/1981 and not electing GABA – final monthly compensation (FMC); hired after 6/30/1981 and those electing GABA – final average compensation (FAC) for last 36 consecutive months | 20 years, regardless of age; age 50, 5 years of service | 5 years membership service |
| SRS | Highest average compensation during any consecutive 36 months | 20 years, regardless of age; age 50, 5 years of service, actuarially reduced | 5 years membership service |
| HPORS | Highest average compensation during any consecutive 36 months | 20 years of service, regardless of age; 5 years of service, actuarially reduced from age 60 | 5 years membership service |
| JRS | Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula) | Age 60, 5 years of service; any age with 5 years of service – involuntary termination, actuarially reduced | 5 years membership service |
| GWPORS | Highest average compensation during any consecutive 36 months | Age 50, 20 years of service; age 55, 5 years of service | 5 years membership service |
| VFCA | | Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service. | 10 years of service credit |
| PERS-DCRP | | Termination of service | Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income |
| TRS | Final average compensation during any consecutive 36 months | Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits. | 5 years |

Summary of Eligibility and Benefits (continued)

| Plan | Monthly Benefit Formula | Guaranteed Annual Benefit Adjustment (GABA) | Minimum Benefit Adjustment (Non-GABA) |
|------------------|---|--|---|
| PERS-DBRP | Less than 25 years of service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit | After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit. | |
| MPORS | 2.5% of FAC per year of service | After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed. |
| FURS | Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of FAC per year of service; or (1) if less than 20 years of service, 2% of FMC for each year of service; or (2) if more than 20 years of service, 50% of the member's FMC plus 2% of the member's FMC for each year of service over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of FAC per year of service. | After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit). |
| SRS | 2.5% of HAC per year of service | After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | |
| HPORS | 2.5% of HAC per year of service | Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit. | Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer. |
| JRS | 3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years | Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members. | Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges. |
| GWPORS | 2.5% of HAC per year of service | After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit. | |
| VFCA | \$7.50 per year of credited service, maximum \$150; if greater than 20 years of service (but not more than 30 years), maximum \$225 | | |
| PERS-DCRP | varies | | |
| TRS | 1.6667% of average final compensation (AFC) per year of service | | |

C. Summary of Significant Accounting Policies

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

E. Long-term Contracts for Contributions

The Montana Legislature also provided a provision of the Employee Protection Act (EPA) (MCA 19-2-706, allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2005, 323 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2005 were \$154,058. June 30, 2005, outstanding balances were \$68,549.

F. Actuarial Data

Actuarial valuations are normally performed every two years. An additional valuation was performed July 2005, to provide the Legislature with updated information on the funding issue. Further disclosure can be found in Note 18.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System provide 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2005, 77 certificate holders were receiving these benefits for the State of Montana, 109 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between \$195 and \$625 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$28.60 and \$46.60, and vision premiums vary between \$8.44 and \$21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2005, there were 3,256 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a \$10 copay to a \$120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of \$20,241,412 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$15,043,619 leaving \$5,197,793 of claims

paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between \$235 and \$580 per month and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 65% to 80% of the first \$10,000 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 65% to 80% for the first \$5,000 in medical claims and 100% thereafter. There is an optional \$1500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (54 enrollees). After the \$1500 annual deductible, the plan pays 65% to 80% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2005, 1,361 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2005, estimated expenditures of \$6,801,059 were recognized for postemployment health care benefits. Of this amount, \$6,232,468 was paid by retirees through premiums, and the balance of \$568,591 was paid by the MUS.

NOTE 8. RISK MANAGEMENT

There are four primary government public entity risk pools that are reported within the enterprise fund type and two component unit public entity risk pools. Primary government pools include Hail Insurance, Subsequent Injury, the Montana University System (MUS) Group Benefits Plan, and the Montana University System Workers Compensation funds; component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,437 policies during the 2005 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of \$191,013 based on estimated claims through June 30, 2005. Any crop

insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period. In Montana, there are 3,609 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2005, the amount of this liability was estimated to be \$2,665,050.

(3) Montana University System (MUS) Group Benefits Plan – This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Blue Cross/Blue Shield of Montana is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services and Peak administers claims for the two other managed care plans. Managed Care Montana has a contract for utilization management: the utilization management program consists of hospital pre-authorization, case management, and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be \$4,619,167 as of June 30, 2005, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(4) Montana University System (MUS) Workers Compensation Program – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During 2005, the program ceded \$196,776 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$3,138,095 for estimated claims in 2005. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

(5) State Compensation Insurance (New Fund) – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2005, approximately 27,527 employers were insured with the New Fund. Anticipated investment income is considered for computing a premium

deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2005, \$511,600,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2005, was \$1,300,000. For the fiscal year ended June 30, 2005, \$1,100,000 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

(6) State Compensation Insurance (Old Fund) – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2005, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2005, \$104,900,000 of unpaid claims and claim adjustment expenses were reported at a net present value of \$79,100,000, discounted at a 5.0% rate.

(7) Changes in Claims Liabilities For the Past Two Years – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

| | <u>Primary Government</u> | | | | <u>MUS Group Benefits</u> | |
|---|---------------------------|--------------|--------------------------|----------------|---------------------------|-----------------|
| | <u>Hail Insurance</u> | | <u>Subsequent Injury</u> | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Unpaid claims and claim adjustment expenses at beginning of year | \$ 95 | \$ 298 | \$2,363 | \$2,364 | \$ 4,663 | \$ 3,444 |
| Incurring claims and claim adjustment expenses: | | | | | | |
| provision for insured events of the current year | 1,978 | 1,164 | - | - | 37,533 | 35,451 |
| Increase (decrease) in provision for insured events of prior years | (285) | (184) | 668 | 205 | (44) | 1,219 |
| Total incurred claims and claim adjustment expenses | 1,693 | 980 | 668 | 205 | 37,489 | 36,670 |
| Payments: | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (1,502) | (885) | (31) | (29) | (37,533) | (35,451) |
| Claims and claim adjustment expenses attributable to insured events of prior years | (95) | (298) | (335) | (177) | - | - |
| Total payment | (1,597) | (1,183) | (366) | (206) | (37,533) | (35,451) |
| Total unpaid claims and claim adjust. exp. at end of the year | <u>\$ 191</u> | <u>\$ 95</u> | <u>\$2,665</u> | <u>\$2,363</u> | <u>\$ 4,619</u> | <u>\$ 4,663</u> |

| | <u>Primary Government</u> | | <u>Component Units</u> | | | |
|---|---|----------------|--|------------------|--|------------------|
| | <u>MUS Workers Compensation Program</u> | | <u>State Compensation Insurance (New Fund)</u> | | <u>State Compensation Insurance (Old Fund)</u> | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Unpaid claims and claim adjustments expenses at beginning of year | \$1,622 | \$ - | \$452,115 | \$413,400 | \$108,500 | \$113,181 |
| Incurring claims and claim adjustment expenses: | | | | | | |
| Provision for insured events of the current year | 2,366 | 2,174 | 149,542 | 136,059 | - | - |
| Increase (decrease) in provision for insured events of prior years | - | - | 10,070 | 13,568 | 6,691 | 8,215 |
| Total incurred claims and claim adjustment expenses | 2,366 | 2,174 | 159,612 | 149,627 | 6,691 | 8,215 |
| Payments: | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of the current year | (382) | (552) | (25,721) | (34,575) | - | - |
| Claims and claim adjustment expenses attributable to insured events of prior years | (468) | - | (74,449) | (76,337) | (10,339) | (12,896) |
| Total payments | (850) | (552) | (100,170) | (110,912) | (10,339) | (12,896) |
| Total unpaid claims and claim adjust. exp. at end of the year | <u>\$3,138</u> | <u>\$1,622</u> | <u>\$511,557</u> | <u>\$452,115</u> | <u>\$104,852</u> | <u>\$108,500</u> |

(8) Risk Management Trend Information – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as

of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

| | | MUS Workers Compensation Program | |
|---|--------------------|---|-------------|
| | | 2004 | 2005 |
| 1. Premiums and investment revenue | | | |
| | Earned | \$2,425 | \$3,048 |
| | Ceded | 151 | 197 |
| | Net earned | \$2,274 | \$2,851 |
| 2. Unallocated expenses including overhead | | \$ 227 | \$ 280 |
| 3. Estimated losses and expenses end of accident year | | | |
| | Incurred | \$2,174 | \$2,366 |
| | Ceded | - | - |
| | Net incurred | \$2,174 | \$2,366 |
| 4. Net paid (cumulative) as of: | | | |
| | End of policy year | \$ 552 | \$ 382 |
| | One year later | 1,020 | - |
| 5. Re-estimated ceded losses and expenses | | \$ - | \$ - |
| 6. Re-estimated net incurred losses and expense: | | | |
| | End of policy year | \$2,174 | \$2,366 |
| 7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year | | \$ - | \$ - |

(State Compensation Insurance (New Fund) Table presented on next page)

| | State Compensation Insurance (New Fund) | | | | | | | | | |
|--|---|------------|----------|----------|----------|-----------|-----------|-----------|------------|------------|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
| 1. Premiums and investment revenue | | | | | | | | | | |
| Earned | \$137,914 | \$105,177 | \$90,544 | \$82,436 | \$91,220 | \$116,056 | \$129,353 | \$165,581 | \$172,961 | \$162,861 |
| Ceded | 519 | 348 | 303 | 260 | 855 | 2,952 | (465) | 5,654 | 6,563 | 6,788 |
| Net earned | \$137,395 | \$104,829 | \$90,241 | \$82,176 | \$90,365 | \$113,104 | \$129,818 | \$159,927 | \$166,398 | \$156,073 |
| 2. Unallocated expenses including overhead | | | | | | | | | | |
| | \$ 17,451 | \$ 12,622 | \$14,444 | \$19,050 | \$22,101 | \$ 26,867 | \$ 29,528 | \$ 32,830 | \$ 40,130 | \$ 44,865 |
| 3. Estimated losses and expenses end of accident year | | | | | | | | | | |
| Incurred | \$ 95,067 | \$ 76,067 | \$64,983 | \$64,645 | \$65,957 | \$ 68,267 | \$ 81,560 | \$110,153 | \$120,705 | \$134,290 |
| Ceded | - | - | - | - | - | - | - | - | - | - |
| Net incurred | \$ 95,067 | \$ 76,067 | \$64,983 | \$64,645 | \$65,957 | \$ 68,267 | \$ 81,560 | \$110,153 | \$120,705 | \$134,290 |
| 4. Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | \$ 15,818 | \$ 12,589 | \$12,943 | \$13,723 | \$13,177 | \$ 14,140 | \$ 16,693 | \$ 22,982 | \$ 26,123 | \$ 25,721 |
| One year later | 32,890 | 28,451 | 28,222 | 29,976 | 29,218 | 32,888 | 38,185 | 48,861 | 50,888 | |
| Two years later | 42,361 | 35,706 | 35,753 | 39,298 | 37,555 | 45,218 | 52,359 | 63,773 | | |
| Three years later | 47,283 | 39,860 | 41,004 | 45,748 | 43,649 | 55,248 | 60,029 | | | |
| Four years later | 50,267 | 43,105 | 44,478 | 49,984 | 48,322 | 61,486 | | | | |
| Five years later | 52,791 | 46,478 | 47,584 | 54,212 | 52,027 | | | | | |
| Six years later | 54,962 | 48,505 | 50,188 | 56,974 | | | | | | |
| Seven years later | 57,654 | 50,402 | 52,240 | | | | | | | |
| Eight years later | 59,193 | 52,285 | | | | | | | | |
| Nine years later | 60,825 | | | | | | | | | |
| 5. Re-estimated ceded losses and expenses | | | | | | | | | | |
| | \$ - | \$ 6,645 | \$ 609 | \$ 1,940 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 6. Re-estimated net incurred losses and expense: | | | | | | | | | | |
| End of policy year | \$ 95,067 | \$ 76,067 | \$64,983 | \$64,645 | \$65,957 | \$ 68,267 | \$ 81,560 | \$110,153 | \$120,705 | \$127,883 |
| One year later | 88,923 | 67,235 | 64,308 | 64,348 | 66,421 | 71,094 | 86,799 | 110,532 | 112,609 | |
| Two years later | 77,286 | 59,054 | 60,467 | 66,660 | 66,662 | 81,053 | 91,241 | 112,443 | | |
| Three years later | 73,864 | 60,811 | 61,989 | 69,345 | 70,302 | 88,157 | 94,615 | | | |
| Four years later | 74,022 | 64,439 | 64,944 | 72,435 | 72,492 | 92,329 | | | | |
| Five years later | 73,197 | 59,079 | 67,312 | 73,710 | 73,423 | | | | | |
| Six years later | 74,329 | 60,528 | 67,772 | 73,537 | | | | | | |
| Seven years later | 76,955 | 60,630 | 68,601 | | | | | | | |
| Eight years later | 76,849 | 60,774 | | | | | | | | |
| Nine years later | 77,029 | | | | | | | | | |
| 7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year | | | | | | | | | | |
| | \$(18,038) | \$(15,293) | \$ 3,618 | \$10,893 | \$ 7,466 | \$ 24,061 | \$ 13,055 | \$ 2,290 | \$ (8,096) | \$ (6,407) |

B. Entities Other Than Pools

(1) Employee Group Benefits – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, and New West for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2005, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$11,675,008 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which \$9,328,724 is estimated to be paid in fiscal year 2006.

(2) Administration Insurance Plans – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.7 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$250,000 for earthquake and \$250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1994 through June 30, 2005, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2005, estimated claims liability is \$20,327,474.

(3) Changes in Claims Liabilities For the Past Two Years – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

| | Group Employees Benefits | | Administration Insurance | |
|--|-------------------------------------|-------------|-------------------------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| Amount of claims liabilities at the beginning of each fiscal year | \$ 11,195 | \$ 11,487 | \$25,558 | \$30,927 |
| Incurred claims: | | | | |
| Provision for insured events of the current year | 76,725 | 70,164 | 6,356 | 7,723 |
| Increases (decreases) in provision for insured events of prior years | 480 | (290) | (5,535) | (8,651) |
| Total incurred claims | 77,205 | 69,874 | 821 | (928) |
| Payments: | | | | |
| Claims attributable to insured events of the current year | (70,299) | (64,699) | (819) | (816) |
| Claims attributable to insured events of prior years | (6,426) | (5,467) | (5,232) | (3,625) |
| Total payments | (76,725) | (70,166) | (6,051) | (4,441) |
| Total claims liability at end of each fiscal year | \$ 11,675 | \$ 11,195 | \$20,328 | \$25,558 |

NOTE 9. COMMITMENTS

A. Highway Construction

At June 30, 2005, the Department of Transportation had contractual commitments of approximately \$197.6 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction

At June 30, 2005, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$20.6 million for capital projects construction. The primary government will fund \$7.2 million of these projects, with the remaining \$13.4 million coming from the state university system.

C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2005, the BOI had committed but not yet purchased \$78,813,735 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$28,884,945 for loans as of June 30, 2005.

The BOI makes firm commitments to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2005, the BOI had committed but not yet purchased from Montana lenders, mortgages totaling \$2,145,343. As of June 30, 2005, mortgage reservations totaled \$1,683,900.

D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

| | <u>Amount</u> |
|--------------------------------------|----------------|
| <u>Enterprise funds</u> | |
| Prison Industries | \$ 421 |
| Liquor Warehouse | 162 |
| Historical Society Publications | 15 |
| MUS Group Insurance | 2 |
| Subtotal-enterprise funds | <u>\$ 600</u> |
| <u>Internal service funds</u> | |
| Buildings and Grounds | \$ 578 |
| FWP Equipment | 129 |
| Investment Division | 64 |
| Admin Supply | 59 |
| DEQ Indirect Cost Pool | 35 |
| Commerce Central Services | 13 |
| Other Internal Services | 1 |
| Subtotal-internal service funds | <u>\$ 879</u> |
| Total | <u>\$1,479</u> |

NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases

Obligations under capital leases/installment purchases at June 30, 2005, were as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government | Discretely Presented Component Units | | |
|--------------------------------------|----------------------------|---|-----------------------------|--------------|
| | Governmental Activities | Montana State University | University of Montana | Total |
| 2006 | \$1,029 | \$29 | \$241 | \$270 |
| 2007 | 784 | 20 | 214 | 234 |
| 2008 | 295 | 1 | 70 | 71 |
| 2009 | 151 | - | 39 | 39 |
| 2010 | 129 | - | 1 | 1 |
| 2011-2015 | 645 | - | - | - |
| Total minimum pmts | 3,033 | 50 | 565 | 615 |
| Less: interest | (328) | (9) | (66) | (75) |
| Present value of minimum payments | <u>\$2,705</u> | <u>\$41</u> | <u>\$499</u> | <u>\$540</u> |

B. Operating Leases

Primary government rental payments for operating leases in fiscal year 2005 totaled \$12,561,000. Future rental payments under operating leases are as follows (in thousands):

| Fiscal Year Ending June 30 | Primary Government | Discretely Presented Component Units |
|-------------------------------|-----------------------|--|
| 2006 | \$14,368 | \$ 1,470 |
| 2007 | 10,484 | 1,117 |
| 2008 | 9,238 | 1,032 |
| 2009 | 8,437 | 861 |
| 2010 | 6,965 | 716 |
| 2011-2015 | 25,255 | 3,380 |
| 2016-2020 | 8,632 | 2,009 |
| 2021-2025 | 522 | - |
| Total future rental payments | <u>\$83,901</u> | <u>\$10,585</u> |

NOTE 11. STATE DEBT

A. General Information

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-term Debt

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2005.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2005, were as follows (in thousands):

| Series | Amount Issued | Balance June 30, 2005 |
|--------|------------------|--------------------------|
| 1994 | 7,500 | \$ 6,810 |
| 1995 | 7,500 | 6,995 |
| 1997 | 10,000 | 9,690 |
| 1998 | 12,500 | 12,285 |
| 2000 | 15,000 | 15,000 |
| 2003 | 15,000 | 15,000 |
| 2004 | 18,500 | 18,500 |
| Total | | <u>\$84,280</u> |

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2005 (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance |
|--------------|-------------------|-----------|------------|----------------|
| Demand bonds | \$90,555 | \$- | \$6,275 | \$84,280 |

C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2005, were as follows (in thousands):

| Governmental Activities | Series | Amount Issued | Interest Range (%) (1) | Principal Payments | | Balance June 30, 2005 |
|-----------------------------------|--------|------------------|---------------------------|---------------------|----------------------------|--------------------------|
| | | | | Fiscal Year 2006 | In Year of Maturity (2) | |
| General obligation bonds | | | | | | |
| Energy Conservation Program (3) | 1996A | \$ 1,650 | 3.5-4.4 | \$ 195 | 195 (2006) | \$ 195 |
| Wastewater Treatment Works | | | | | | |
| Revolving Fund (4) | 1996C | 2,765 | 3.75-5.75 | 140 | 120 (2017) | 1,905 |
| Renewable Resource Program (5) | 1997A | 2,000 | 6.8-8.0 | 125 | 90 (2012) | 1,000 |
| Long-Range Bldg Program | 1997B | 12,640 | 4.5-5.0 | 865 | 945 (2008) | 2,715 |
| Wastewater Treatment Works | | | | | | |
| Revolving Fund (4) | 1998A | 3,510 | 3.75-5.15 | 145 | 260 (2019) | 2,745 |
| Long-Range Bldg Program | 1998B | 34,545 | 4.2-5.1 | 1,490 | 2,555 (2018) | 25,550 |
| Information Technology | 1998C | 41,390 | 4.5-5.0 | 3,750 | 4,075 (2008) | 11,730 |
| Long-Range Bldg Program Refunding | 1998D | 14,855 | 4.4-5.0 | 1,165 | 1,720 (2015) | 14,060 |
| Energy Conservation Program (3) | 1998E | 1,250 | 3.6-4.6 | 135 | 150 (2008) | 425 |
| Renewable Resource Program (5) | 1999 | 1,035 | 6.0-6.5 | 60 | 105 (2015) | 790 |
| Long-Range Bldg Program | 1999C | 16,990 | 4.0-5.0 | 695 | 785 (2009) | 2,950 |
| Drinking Water Revolving Fund (4) | 1998F | 3,065 | 3.6-4.85 | 130 | 230 (2019) | 2,465 |
| Drinking Water Revolving Fund (4) | 2000A | 2,990 | 4.25-5.6 | 105 | 240 (2021) | 2,605 |
| Water Pollution Control Revolving | | | | | | |
| Fund (4) | 2000B | 3,325 | 4.25-5.6 | 120 | 270 (2021) | 2,905 |
| Long-Range Bldg Program | 2000C | 17,195 | 5.0-5.55 | 610 | 800 (2011) | 4,225 |
| Information Technology | 2000D | 18,000 | 5.0-5.25 | 1,830 | 1,830 (2006) | 1,830 |
| Long-Range Bldg Program | 2001B | 11,430 | 4.1-5.75 | 415 | 830 (2021) | 9,475 |
| Information Technology | 2001C | 1,600 | 3.85-4.2 | 150 | 185 (2011) | 1,000 |
| Energy Conservation Program (3) | 2001D | 1,250 | 3.85-4.2 | 115 | 145 (2011) | 775 |
| Renewable Resource Program (5) | 2001E | 1,040 | 5.2-6.8 | 55 | 105 (2017) | 900 |
| Drinking Water Revolving Fund (4) | 2001G | 3,190 | 4.0-5.0 | 120 | 235 (2022) | 2,870 |
| Water Pollution Control Revolving | | | | | | |
| Fund (4) | 2001H | 2,690 | 4.0-5.0 | 100 | 200 (2022) | 2,415 |
| Long-Range Bldg Program | 2002B | 10,475 | 3.35-4.7 | 415 | 730 (2023) | 9,705 |
| Hard Rock Mining Reclamation | 2002C | 2,500 | 3.5-4.7 | 85 | 200 (2023) | 2,355 |
| Long-Range Bldg Program Refunding | 2002D | 15,805 | 2.5-3.7 | 1,285 | 1,685 (2014) | 13,205 |
| Long-Range Bldg Program | 2003A | 9,730 | 2.37-4.0 | 400 | 655 (2024) | 9,410 |
| Energy Conservation Program (3) | 2003B | 1,250 | 2.0-3.0 | 115 | 145 (2014) | 1,145 |
| Renewable Resource Program | | | | | | |
| Refunding (5) | 2003C | 1,970 | 1.45-5.25 | 410 | 90 (2019) | 1,530 |
| Water Pollution Control Revolving | | | | | | |
| Fund (4) | 2003D | 2,730 | 2.0-3.75 | 155 | 225 (2019) | 2,585 |
| Drinking Water Revolving Fund (4) | 2003E | 1,675 | 2.0-3.75 | 95 | 140 (2019) | 1,585 |
| Long-Range Bldg Program Refunding | 2003G | 26,610 | 2.0-5.0 | 2,105 | 2,310 (2017) | 24,640 |
| Information Technology Refunding | 2003H | 8,725 | 2.0-4.0 | 90 | 2,225 (2010) | 8,560 |
| Water Pollution Control Revolving | | | | | | |
| Fund (4) | 2004A | 2,665 | 2.0-3.8 | 125 | 230 (2020) | 2,665 |
| Long-Range Bldg Program | 2004B | 3,125 | 3.0-4.75 | 130 | 170 (2025) | 3,125 |
| Long-Range Bldg Program Refunding | 2005A | 14,945 | 3.0-5.25 | - | 1,205 (2019) | 14,945 |
| Long-Range Bldg Program | 2005B | 1,670 | 3.25-4.3 | - | 120 (2026) | 1,670 |
| Energy Conservation Program (3) | 2005C | 2,500 | 3.25-4.0 | - | 290 (2016) | 2,500 |
| CERCLA Program (6) | 2005D | 2,000 | 3.25-4.3 | - | 140 (2026) | 2,000 |
| Drinking Water Revolving Fund (4) | 2005F | 3,875 | 4.0-4.75 | - | 350 (2021) | 3,875 |
| Water Pollution Control Revolving | | | | | | |
| Fund (4) | 2005G | 2,110 | 4.0-4.75 | - | 190 (2021) | 2,110 |
| Long-Range Bldg Program Refunding | 2005H | 10,055 | 3.0-5.0 | 120 | 1,300 (2020) | 10,055 |
| Total general obligation bonds | | \$322,820 | | \$18,045 | | \$213,195 |

| Governmental Activities | Series | Amount Issued | Interest Range (%) (1) | Principal Payments | | Balance June 30, 2005 |
|--|--------|------------------|---------------------------|---------------------|----------------------------|--------------------------|
| | | | | Fiscal Year 2006 | In Year of Maturity (2) | |
| Special revenue bonds | | | | | | |
| State Hospital Project (7) | 1997 | \$ 25,915 | 4.0-5.05 | \$ 845 | 1,820 (2022) | \$ 21,555 |
| Renewable Resource Program (8) | 1997A | 1,205 | 6.0-7.3 | 45 | 110 (2018) | 950 |
| Renewable Resource Program (8) | 1997B | 2,660 | 3.75-5.37 | 110 | 210 (2018) | 2,020 |
| Renewable Resource Program (8) | 2001A | 420 | 3.65-5.59 | 15 | 30 (2021) | 360 |
| Renewable Resource Program (8) | 2001B | 1,750 | 5.2-7.1 | 55 | 150 (2021) | 1,550 |
| Renewable Resource Program Refunding (8) | 2001C | 12,155 | 2.55-4.3 | 1,345 | 790 (2013) | 4,950 |
| Broadwater Power Proj Refunding (8) | 2001D | 21,450 | 2.25-4.7 | 1,135 | 1,795 (2018) | 18,380 |
| Renewable Resource Program (8) | 2001E | 885 | 2.1-4.85 | 35 | 65 (2022) | 790 |
| Renewable Resource Program (8) | 2001F | 900 | 3.3-6.2 | 30 | 75 (2022) | 820 |
| Developmental Center Project Refunding (7) | 2003 | 11,510 | 3.0-5.0 | 570 | 970 (2019) | 10,425 |
| Renewable Resource Program (8) | 2003A | 3,000 | 1.05-4.05 | 110 | 215 (2024) | 2,890 |
| Renewable Resource Program Refunding (8) | 2004A | 5,070 | 2.15-2.95 | 1,230 | 500 (2010) | 4,860 |
| Renewable Resource Program (8) | 2004B | 430 | 4.45-5.45 | 20 | 40 (2020) | 430 |
| U.S. Highway 93 GARVEES (9) | 2005 | 122,795 | 3.65-5.19 | 4,960 | 11,315 (2020) | 122,795 |
| Total special revenue bonds | | <u>\$210,145</u> | | <u>\$10,505</u> | | <u>\$192,775</u> |
| Notes payable | | | | | | |
| Water Conservation (Little Dry Project) (10) | | \$ 50 | 5.0 | \$ 2 | 1 (2012) | \$ 16 |
| Water Conservation (Petrolia Project) (10) | | 50 | 5.0 | 2 | 2 (2016) | 24 |
| Middle Creek Dam Project (11) | | 3,272 | 8.125 | 48 | 203 (2034) | 2,838 |
| Tongue River Dam Project (12) | | 11,300 | - | 290 | 290 (2038) | 9,561 |
| Total notes payable | | <u>\$ 14,672</u> | | <u>\$ 342</u> | | <u>\$ 12,439</u> |
| Subtotal governmental activities, before deferred balances | | | | | | 418,409 |
| Deferred amount on refunding | | | | | | (6,322) |
| Unamortized discount | | | | | | (158) |
| Unamortized premium | | | | | | 9,680 |
| Total governmental activities | | <u>\$547,637</u> | | <u>\$28,892</u> | | <u>\$421,609</u> |
| Business-type Activities | | | | | | |
| Bonds/notes payable | | | | | | |
| <u>Economic Development Bonds (13)</u> | | | | | | |
| Municipal Finance Consolidation Act Bonds (Irrigation Program) (14) | 1988 | \$ 4,976 | 6.60-7.75 | \$ 450 | 70 (2014) | \$ 880 |
| Conservation Reserve Enhancement Program (CRP Bonds) (15) | | 3,028 | 6.0-8.0 | 1,024 | 33 (2009) | 3,028 |
| Subtotal economic dev bonds | | <u>8,004</u> | | <u>1,474</u> | | <u>3,908</u> |
| MUS Workers Compensation Bonds Payable | | 2,050 | 2.8 | 410 | 430 (2008) | 1,260 |
| Total business-type activities | | <u>\$ 10,054</u> | | <u>\$ 1,884</u> | | <u>\$ 5,168</u> |

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

(4) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.

(5) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event there are not sufficient cost recovery payments.
- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$224,944 of interest owed.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.

D. Debt Service Requirements

Primary government debt service requirements at June 30, 2005, were as follows (in thousands):

Governmental Activities

| Year Ended June 30 | General Obligation Bonds | | Special Revenue Bonds | | Notes Payable | |
|-----------------------|--------------------------|----------|-----------------------|----------|---------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 18,045 | \$ 8,283 | \$ 10,505 | \$ 9,914 | \$ 342 | \$ 47 |
| 2007 | 18,775 | 7,808 | 10,485 | 8,584 | 343 | 46 |
| 2008 | 19,335 | 7,056 | 10,500 | 8,196 | 345 | 45 |
| 2009 | 15,075 | 6,372 | 11,575 | 7,710 | 347 | 44 |
| 2010 | 15,620 | 5,774 | 11,620 | 7,202 | 349 | 43 |
| 2011-2015 | 69,420 | 20,286 | 62,415 | 27,808 | 1,781 | 200 |
| 2016-2020 | 46,890 | 6,793 | 70,865 | 11,575 | 1,878 | 168 |
| 2021-2025 | 9,775 | 756 | 4,810 | 356 | 1,973 | 130 |
| 2026-2030 | 260 | 6 | - | - | 2,098 | 83 |
| 2031-2035 | - | - | - | - | 2,114 | 24 |
| 2036-2040 | - | - | - | - | 869 | - |
| Total | \$213,195 | \$63,134 | \$192,775 | \$81,345 | \$12,439 | \$830 |

Business-type Activities

| Year Ended June 30 | Economic Development Bonds | | MUS Workers Compensation Bonds | |
|-----------------------|----------------------------|----------|--------------------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$1,474 | \$251 | \$ 410 | \$35 |
| 2007 | 1,005 | 164 | 420 | 24 |
| 2008 | 1,051 | 97 | 430 | 12 |
| 2009 | 78 | 27 | - | - |
| 2010 | 50 | 21 | - | - |
| 2011-2015 | 250 | 40 | - | - |
| Total | \$3,908 | \$600 | \$1,260 | \$71 |

Debt service requirements of discretely presented component units at June 30, 2005, were as follows (in thousands):

| Year Ended June 30 | Housing Authority | | Montana State University | | University of Montana | |
|-----------------------|-------------------|-----------|--------------------------|----------|-----------------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 9,855 | \$ 38,874 | \$ 5,078 | \$ 4,101 | \$ 4,720 | \$ 6,762 |
| 2007 | 12,490 | 38,287 | 4,117 | 3,883 | 4,912 | 6,586 |
| 2008 | 13,175 | 37,790 | 3,468 | 4,960 | 5,099 | 6,421 |
| 2009 | 14,100 | 37,229 | 3,266 | 5,161 | 5,013 | 6,239 |
| 2010 | 14,450 | 36,607 | 3,265 | 5,185 | 4,800 | 6,057 |
| 2011-2015 | 86,055 | 171,862 | 21,754 | 18,844 | 27,213 | 27,028 |
| 2016-2020 | 110,505 | 148,162 | 29,390 | 11,108 | 33,949 | 19,858 |
| 2021-2025 | 141,465 | 115,980 | 19,445 | 4,960 | 42,475 | 9,291 |
| 2026-2030 | 178,310 | 73,592 | 6,295 | 2,331 | 7,300 | 1,703 |
| 2031-2035 | 149,075 | 27,830 | 6,710 | 872 | 3,135 | 296 |
| 2036-2040 | 24,715 | 4,124 | - | - | - | - |
| 2041-2045 | 6,950 | 482 | - | - | - | - |
| Total | \$761,145 | \$730,819 | \$102,788 | \$61,405 | \$138,616 | \$90,241 |

E. Summary of Changes in Long-term Liabilities Payable

Primary government long-term liability activity for the year ended June 30, 2005, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due In More Than One Year |
|--|----------------------|------------------|------------------|-------------------|-----------------------------------|--|
| Governmental activities | | | | | | |
| Bonds/notes payable | | | | | | |
| General obligation bonds | \$219,645 | \$ 37,155 | \$ 43,605 | \$213,195 | \$18,045 | \$195,150 |
| Special revenue bonds (2) | 76,350 | 128,295 | 11,870 | 192,775 | 10,505 | 182,270 |
| Notes payable (3) | 12,850 | - | 411 | 12,439 | 342 | 12,097 |
| | 308,845 | 165,450 | 55,886 | 418,409 | 28,892 | 389,517 |
| Deferred amount on refunding | (5,438) | (1,577) | (693) | (6,322) | - | (6,322) |
| Unamortized discount | (161) | - | (3) | (158) | - | (158) |
| Unamortized premium | 1,880 | 8,106 | 306 | 9,680 | - | 9,680 |
| Total bonds/notes payable | 305,126 | 171,979 | 55,496 | 421,609 | 28,892 | 392,717 |
| Other liabilities | | | | | | |
| Lease/installment purchase payable (4) | 2,313 | 1,311 | 919 | 2,705 | 885 | 1,820 |
| Compensated absences payable (1) | 75,005 | 37,332 | 38,934 | 73,403 | 38,925 | 34,478 |
| Early retirement benefits payable (1) | 215 | - | 161 | 54 | 6 | 48 |
| Arbitrage rebate tax payable (1) | 77 | 21 | 45 | 53 | - | 53 |
| Estimated insurance claims (1) | 36,753 | 83,561 | 88,311 | 32,003 | 16,264 | 15,739 |
| Total other liabilities | 114,363 | 122,225 | 128,370 | 108,218 | 56,080 | 52,138 |
| Total governmental activities | | | | | | |
| Long-term liabilities | \$419,489 | \$294,204 | \$183,866 | \$529,827 | \$84,972 | \$444,855 |
| Business-type activities | | | | | | |
| Bonds/notes payable | | | | | | |
| Economic Development Bonds | \$ 6,287 | \$ 177 | \$ 2,556 | \$ 3,908 | \$ 1,474 | \$ 2,434 |
| MUS Workers Compensation | 1,655 | - | 395 | 1,260 | 410 | 850 |
| Total bonds/notes payable | 7,942 | 177 | 2,951 | 5,168 | 1,884 | 3,284 |
| Other liabilities | | | | | | |
| Compensated absences payable | 1,228 | 510 | 593 | 1,145 | 592 | 553 |
| Arbitrage rebate tax payable | 140 | 72 | 98 | 114 | - | 114 |
| Estimated insurance claims | 8,743 | 42,545 | 40,675 | 10,613 | 7,414 | 3,199 |
| Total other liabilities | 10,111 | 43,127 | 41,366 | 11,872 | 8,006 | 3,866 |
| Total business-type activities | | | | | | |
| Long-term liabilities | \$ 18,053 | \$ 43,304 | \$ 44,317 | \$ 17,040 | \$ 9,890 | \$ 7,150 |

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.
- (2) Governmental activities special revenue bonds beginning balance has been reduced by \$18,000 to reflect that the Little Dry Project loan has been reclassified to governmental activities notes payable.
- (3) Governmental activities notes payable beginning balance has been increased by \$43,000 to reflect that the Little Dry Project loan has been reclassified from governmental activities special revenue bonds in the amount of \$18,000 and to reflect the Petrolia Project loan that existed prior to fiscal year 2005, but was not previously reported (in the amount of \$25,000).
- (4) Governmental activities lease/installment purchase payable beginning balance has been reduced by \$19,000 to reflect a correction for lease balances reported incorrectly in fiscal 2004.

Long-term liability activity of discretely presented component units for the year ended June 30, 2005, was as follows (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year | Amounts Due In More Than One Year |
|--|----------------------|------------------|------------------|--------------------|-----------------------------------|--|
| Discretely presented component units | | | | | | |
| Bonds/notes payable | | | | | | |
| Housing Authority | \$ 630,955 | \$216,360 | \$ 82,101 | \$ 765,214 | \$ 9,855 | \$ 755,359 |
| Montana State University (MSU) | 87,254 | 56,208 | 35,912 | 107,550 | 5,078 | 102,472 |
| University of Montana (UM) | 139,996 | 684 | 3,874 | 136,806 | 4,720 | 132,086 |
| Total bonds/notes payable | 858,205 | 273,252 | 121,887 | 1,009,570 | 19,653 | 989,917 |
| Other liabilities | | | | | | |
| Lease/installment purch pay | 889 | 138 | 487 | 540 | 229 | 311 |
| Compensated absences pay | 42,774 | 21,324 | 19,341 | 44,757 | 19,600 | 25,157 |
| Arbitrage rebate tax payable | 1,024 | 281 | 43 | 1,262 | 443 | 819 |
| Estimated insurance claims | 532,893 | 168,282 | 110,509 | 590,666 | 121,189 | 469,477 |
| Due to federal government | 30,242 | 382 | 18 | 30,606 | - | 30,606 |
| Total other liabilities | 607,822 | 190,407 | 130,398 | 667,831 | 141,461 | 526,370 |
| | \$1,466,027 | \$463,659 | \$252,285 | \$1,677,401 | \$161,114 | \$1,516,287 |
| Long-term liabilities of MSU component units | | | | | 358 | 1,714 |
| Long-term liabilities of UM component units | | | | | 572 | 222 |
| Total discretely presented component units | | | | | | |
| Long-term liabilities | | | | | \$162,044 | \$1,518,223 |

F. Refunded and Early Retired Debt

Primary Government

Pre-payments

During fiscal year 2005, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: \$1,590,000 of Series 1994B Wastewater Treatment Works Revolving Fund (these bonds were paid in full) and \$315,000 of Series 1997A Renewable Resource Program.

DNRC also used current available resources to make the following pre-payments on special revenue bonds: \$450,000 of Series 1996A Renewable Resource Program Refunding (this series was also refunded in the fiscal year – see below) and \$210,000 of Series 2004A Renewable Resource Program Refunding.

Advance Refundings

On December 15, 2004, DNRC issued \$5,070,000 of Series 2004A Renewable Resource Program Refunding special revenue bonds to advance refund \$5,465,000 of Series 1996A Renewable Resource Program Refunding special revenue bonds. The net proceeds of \$4,997,852 (after payment of \$72,148 in underwriting fees and other issuance costs) plus an additional \$499,317 of certain other available funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series

1996A bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$318,403 and an economic gain of \$240,775.

On February 1, 2005, the Department of Administration (DofA) issued \$14,945,000 of Series 2005A General Obligation Long-Range Building Program Refunding bonds to advance refund \$4,800,000 of Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and \$10,170,000 of Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter. The net proceeds of \$15,675,227 (including a reoffering premium of \$933,116 and after payment of \$202,889 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 1997B Long-Range Building Program bonds, callable on August 1, 2007, maturing in 2008 and thereafter, and the Series 1999C Long-Range Building Program bonds, callable on August 1, 2008, maturing in 2009 and thereafter are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$751,667 and an economic gain of \$593,601.

On May 5, 2005, DofA issued \$10,055,000 of Series 2005H General Obligation Long-Range Building Program Refunding bonds to advance refund \$9,580,000 of Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter. The net proceeds of \$10,419,652 (including a reoffering premium of \$501,926 and after payment of \$137,274 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust, with an escrow agent, to provide for future debt service payments. As a result, the Series 2000C Long-Range Building Program bonds callable on August 1, 2010, maturing in 2011 and thereafter, are considered to be defeased, and the liability for those bonds has been removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$495,341 and an economic gain of \$387,885.

Deferred loss on primary government refundings at June 30, 2005, was \$6,322,000.

Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, \$60,670,000 of bonds outstanding are considered defeased.

Discretely Presented Component Units

Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2005, \$4,355,000 and \$47,236,073 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

Primary Government

Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. At June 30, 2005, industrial revenue bonds outstanding aggregated \$204.6 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2005, QZAB debt outstanding aggregated \$4.3 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2005, was as follows: Hershberger Project – issued \$129,412, outstanding \$122,178; Young Project – issued \$223,300, outstanding \$216,472.

Discretely Presented Component Units

Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2005, revenue bonds outstanding aggregated \$616 million, and notes payable outstanding aggregated \$11 million.

The Board of Investments and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

A. Balances Due From/To Other Funds

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2005, consisted of the following (in thousands):

| | Due To Other Funds | | | | | |
|------------------------------|---------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------|---------------------------------|
| | Coal Severance Tax Permanent | Economic Development Bonds | Federal Special Revenue | General Fund | Internal Service Funds | Nonmajor Enterprise Funds |
| Due From Other Funds | | | | | | |
| Coal Severance Tax Permanent | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Economic Development Bonds | - | - | - | - | 2,140 | - |
| Federal Special Revenue | - | - | - | 171 | 26 | - |
| General Fund | 6,421 | 1 | 614 | - | 65 | 8,754 |
| Internal Service Funds | 38 | 2 | 1,327 | 1,834 | 239 | 142 |
| Nonmajor Enterprise Funds | - | - | 6 | 93 | 9 | - |
| Nonmajor Governmental Funds | - | - | 574 | 6 | - | - |
| State Special Revenue | - | - | 659 | 14,294 | 29 | 71 |
| Total | \$6,459 | \$3 | \$3,180 | \$16,398 | \$2,508 | \$8,967 |

| | Nonmajor Governmental Funds | Pension (And Other Employee Benefit) Trust Funds | State Special Revenue | Unemployment Insurance | Total |
|---|-----------------------------------|--|-----------------------------|---------------------------|-----------------|
| | | | | | |
| Due From Other Funds (continued) | | | | | |
| Coal Severance Tax Permanent | \$ 4 | \$ - | \$ - | \$ - | \$ 4 |
| Economic Development Bonds | - | 26 | 1,529 | - | 3,695 |
| Federal Special Revenue | - | - | 355 | 65 | 617 |
| General Fund | 5 | - | 24,160 | - | 40,020 |
| Internal Service Funds | 12 | - | 1,881 | - | 5,475 |
| Nonmajor Enterprise Funds | - | - | 28 | - | 136 |
| Nonmajor Governmental Funds | - | - | 9 | - | 589 |
| State Special Revenue | 2,709 | - | - | - | 17,762 |
| Total | \$2,730 | \$26 | \$27,962 | \$65 | \$68,298 |

B. Interfund Loans Receivable/Payable

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2005, consisted of the following (in thousands):

| | Interfund Loans Payable | | | | | |
|-----------------------------------|-------------------------------|------------------------------|---------------------------------|-----------------------------------|-----------------------------|----------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Enterprise Funds | Nonmajor Governmental Funds | State Special Revenue | Total |
| Interfund Loans Receivable | | | | | | |
| Federal Special Revenue | \$ - | \$ 100 | \$ - | \$ - | \$ 450 | \$ 550 |
| General Fund | 15,815 | 1,329 | - | 382 | 1,774 | 19,300 |
| Internal Service Funds | 436 | - | 146 | - | 25 | 607 |
| Nonmajor Enterprise Funds | 9 | - | - | - | - | 9 |
| State Special Revenue | 12,363 | 1,002 | - | - | - | 13,365 |
| Total | \$28,623 | \$2,431 | \$146 | \$382 | \$2,249 | \$33,831 |

C. Advances To/From Other Funds

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2005, consisted of the following (in thousands):

| | Advances From Other Funds | | | | | |
|------------------------------|-------------------------------|------------------------------|-----------------------------------|--|-----------------------------|----------|
| | Federal Special Revenue | Internal Service Funds | Nonmajor Governmental Funds | Pension (And Other Employee Benefit) Trust Funds | State Special Revenue | Total |
| Advances To Other Funds | | | | | | |
| Coal Severance Tax Permanent | \$ - | \$ - | \$ - | \$ - | \$44,241 | \$44,241 |
| Economic Development Bonds | | 4,292 | | 181 | 9,540 | 14,013 |
| General Fund | 40 | - | - | - | 60 | 100 |
| Nonmajor Enterprise Funds | 75 | 120 | - | - | - | 195 |
| Nonmajor Governmental Funds | - | - | - | - | 2,826 | 2,826 |
| State Special Revenue | 2,135 | - | 12,371 | - | - | 14,506 |
| Total | \$2,250 | \$4,412 | \$12,371 | \$181 | \$56,667 | \$75,881 |

Additional detail for certain advance payable balances at June 30, 2005, follows (in thousands):

| Advances Payable to the Economic Development Bonds Fund under the INTERCAP Loan Program | | Advances Payable to the Coal Severance Tax Permanent Fund | |
|---|----------|---|----------|
| Department | Balance | Department | Balance |
| Administration | \$ 181 | Justice | \$ 2,345 |
| Environmental Quality | 905 | Natural Resources and Conservation | 41,896 |
| Justice | 8,547 | Total | \$44,241 |
| Natural Resources and Conservation | 88 | | |
| Transportation | 4,292 | | |
| Total | \$14,013 | | |

D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

For the fiscal year ended June 30, 2005, two transfers occurred between the General Fund and the State Special Revenue Fund that are considered significant and non-routine. In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745 appropriated a \$13.6 million transfer from the General Fund to the State Special Revenue Fund for repayment of the Integrated Revenue Information System (IRIS) loan. As noted in the fiscal year 2004 CAFR, Note 18, this loan was deemed unconstitutional. The Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund. The second transfer was made in accordance with Senate Bill 87 of the Fifty-Ninth Legislative Assembly. This legislation required 50 percent of the money received from payments of property taxes or fees under protest to be transferred from the General Fund to a newly established centrally assessed property tax state special revenue fund.

Interfund transfers for the year ended June 30, 2005, consisted of the following (in thousands):

| | Transfers In | | | | | |
|------------------------------|---------------------------------------|-------------------------------|-----------------|------------------------------|---------------------------------|-----------------------------------|
| | Coal Severance Tax Permanent | Federal Special Revenue | General Fund | Internal Service Funds | Nonmajor Enterprise Funds | Nonmajor Governmental Funds |
| Transfers Out | | | | | | |
| Coal Severance Tax Permanent | \$ - | \$ - | \$36,752 | \$ - | \$ - | \$ 1,294 |
| Federal Special Revenue | - | - | - | 450 | 3 | 8,998 |
| General Fund | - | - | - | 287 | 47 | 16,645 |
| Internal Service Funds | - | - | - | - | - | 31 |
| Land Grant Permanent | - | - | - | - | - | 795 |
| Nonmajor Enterprise Funds | - | 1 | 25,026 | - | - | - |
| Nonmajor Governmental Funds | - | - | 11 | 500 | - | 2,905 |
| State Special Revenue | 3,006 | 26 | 10,077 | 1,678 | 13 | 24,764 |
| Unemployment Insurance | - | 2,729 | - | - | - | - |
| Total | \$3,006 | \$2,756 | \$71,866 | \$2,915 | \$63 | \$55,432 |

| | Pension (And Other Employee Benefit) Trust Funds | State Special Revenue | Total |
|----------------------------------|--|-----------------------------|------------------|
| Transfers Out (continued) | | | |
| Coal Severance Tax Permanent | \$ - | \$ 8,824 | \$ 46,870 |
| Federal Special Revenue | - | 5,147 | 14,598 |
| General Fund | - | 27,459 | 44,438 |
| Internal Service Funds | 150 | 9 | 190 |
| Land Grant Permanent | - | 76,933 | 77,728 |
| Nonmajor Enterprise Funds | - | 3,965 | 28,992 |
| Nonmajor Governmental Funds | - | 18,254 | 21,670 |
| State Special Revenue | - | - | 39,564 |
| Unemployment Insurance | - | - | 2,729 |
| Total | \$150 | \$140,591 | \$276,779 |

NOTE 13. FUND DEFICITS

The following funds have a deficit fund balance/net assets position at June 30, 2005, (in thousands):

| Fund Type/Fund | Deficit |
|--------------------------------------|----------------|
| <u>Capital projects funds</u> | |
| Federal/Private Construction Grants | \$ (409) |
| <u>Enterprise funds</u> | |
| Subsequent Injury | \$ (827) |
| <u>Internal service funds</u> | |
| Administration Insurance | \$(9,710) |
| Administration Central Services | \$ (29) |
| Justice Legal Services | \$ (70) |

The net assets deficit in the Administration Insurance Fund is due to recording the expense for estimated claims including claims incurred, but not reported. Refer to Note 8 for further discussion of this fund.

NOTE 14. RESERVED FUND BALANCES

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

| Fund Type/Purpose | Amount |
|---|------------------|
| <u>State Special Revenue funds</u> | |
| General Government | \$ 26,267 |
| Public Safety/Corrections | 184,600 |
| Transportation | 167,656 |
| Health/Social Services | 23,551 |
| Education/Cultural | 3,865 |
| Resource/Recreation/Environment | 276,893 |
| Economic Development/Assistance | 36,718 |
| Total state special revenue funds | <u>\$719,550</u> |
| <u>Federal Special Revenue funds</u> | |
| General Government | \$ 7,596 |
| Public Safety/Corrections | 729 |
| Health/Social Services | 1,608 |
| Education/Cultural | 13,229 |
| Resource/Recreation/Environment | 3,837 |
| Economic Development/Assistance | 296 |
| Total federal special revenue funds | <u>\$27,295</u> |

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

| Purpose | Amount |
|---|------------------|
| Coal Severance Tax Bond Fund | \$ 11,493 |
| Treasure State Endowment Fund | 140,517 |
| Treasure State Endowment Regional Water System Fund | 25,481 |
| Coal Severance Tax Permanent Fund | 498,287 |
| Coal Severance Tax Income Fund | 15,958 |
| Total | <u>\$691,736</u> |

NOTE 15. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Board of Regents and MHESAC have three common board members. Approximately 69.59% of the Regents' outstanding loan volume, or \$957,571,545 is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2005 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer

maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2005 amounted to \$494,722. SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2005, SAF paid OCHE a total of \$28,393.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.

NOTE 16. CONTINGENCIES

A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1st Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution. The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs have cross-appealed on certain aspects of the judgment

as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State has until October 2005 to address this issue. The court retains jurisdiction to determine whether the Legislature adopts legislation correcting the constitutional deficiencies in the existing system, and further litigation under this retained jurisdiction is possible. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of \$499,732.18. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years.

The State has responded, and is responding to the Columbia Falls court decision. The State defined a quality K-12 education with the passage of Senate Bill 152 during the 2005 Legislative Session. Additionally, Senate Bill 152 defined educationally relevant factors to which a funding system must be correlated. The 2005 Legislature also passed Senate Bill 525, establishing a Quality Schools Interim Committee. This committee is directed to (1) assess the educational needs of Montana children; (2) determine the cost of providing a quality education; (3) determine the State's share of the costs; (4) construct a funding formula in accordance with the requirements contained in the legislation. These directives must be accomplished by December 1, 2005. Additionally, Governor Schweitzer has provided the Quality Schools Interim Committee the following proposals for consideration: (1) a voluntary health care package that includes State of Montana assumption of "high cost" insurance claims along with other health benefits; (2) a one-time appropriation of \$100 million into Montana's Teacher Retirement System (TRS); (3) a one-time appropriation of \$25 million for facility maintenance and increased energy efficiency. Prior to the enactment of a long-term solution, K-12 funding was increased by \$88 million for the current biennium, and \$3.4 million was appropriated to fund the Indian Education for All Program. A special session of the Montana Legislature has been called, starting on December 14, 2005, to address this issue. It remains to be seen whether the State's actions will satisfy the Montana Supreme Court order in the Columbia Falls School case. Additional costs required by the State in relation to this court case are not estimable at this time.

Beginning in February 2001, the Montana Department of Fish Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a

fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. The plaintiffs have filed a notice of appeal of that decision to the Montana Supreme Court. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice. Spoklie v. Montana Department of Fish, Wildlife and Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain reasonably possible. The estimated amount of loss cannot be estimated at this time.

Murer, et al v. Montana State Compensation Mutual Insurance Fund, et al., WCC No. 9206-6487, involves the 1987 Legislature's capping of workers compensation benefits (\$299.00 a week for total benefits and \$149.50 a week for partial benefits) for injuries occurring during the period July 1, 1987 through June 30, 1989. The 1989 Legislature reenacted those caps for the period July 1, 1989 through June 30, 1991 for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court found that these caps should have expired on June 30, 1989, for injuries occurring between July 1, 1987 and June 30, 1989 and should have expired on June 30, 1991, for injuries occurring between July 1, 1989 and June 30, 1991.

The Montana Supreme Court determined a "common fund" had been created. As a result, the Montana State Fund (MSF), under Workers Compensation Court direction, performed a review of approximately 7,500

claims. Those claims qualifying are paid 85% of the increased rate, with 15% paid to the claimant attorney. The current benefit costs and fees in Murer total approximately \$2 million. The cost impact has been paid, or is included in Montana State Fund's loss reserves. The review and payment process is almost complete. This case will not be reported in future years due to the nearly completed process.

The common fund doctrine was first addressed for workers compensation claims in Murer v. State Compensation Mutual Ins. Fund, 283 Mont. 210, 223, 942 P.2d 69, 76 (1997), as follows:

When a party, through active litigation, creates a common fund, which directly benefits an ascertainable class of non-participating beneficiaries, those non-participating beneficiaries can be required to bear a portion of the litigation costs, including reasonable attorney fees. Accordingly, the party who creates the common fund is entitled, pursuant to the common fund doctrine, to reimbursement of his or her reasonable attorney fees from that fund.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided in the Montana WCA (Workers Compensation Act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that MCA 39-72-405 is unconstitutional as applied to Debra Stavenjord. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to \$27,027 under the WCA, versus \$10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjord is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001, is estimated at \$2.2 million and is recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision has been appealed to the Montana Supreme Court. Should the ultimate decision of the Montana Supreme Court be to create a common fund and apply the decision retroactively to 1987, the cost is estimated at \$14 to \$19 million dollars for the Montana State

Fund (New Fund), for claims on or after July 1, 1990). Should the ultimate decision of the Montana Supreme Court be to apply the decision retroactively to 1987, the impact on the Old Fund liability for claims that occurred before July 1, 1990 is estimated at \$5 to \$7 million. Final disposition is unknown at this time. The outcome of a ruling reversing the Workers Compensation Court by the Montana Supreme Court that would increase MSF and State of Montana liability is reasonably possible. Actual cost impact should the Montana Supreme Court reverse the Workers Compensation Court ruling is unknown.

Schmill v. Liberty Northwest Insurance, 2003 MT 80, decided April 10, 2003, by the Montana Supreme Court held as follows: "We conclude that the ODA and the WCA treat similarly situated classes of workers differently. Furthermore, apportioning Schmill's permanent impairment award for her occupational disease pursuant to MCA 39-72-706 of the ODA while providing full benefits for injured workers pursuant to the WCA is not rationally related to a legitimate governmental interest. Therefore, we conclude that MCA 39-72-706 violates the equal protection guarantee found at Article II, Section 4 of the Montana Constitution. The judgment of the Workers Compensation Court is affirmed." The Workers Compensation Court determined that a common fund existed, and the case was retroactive to July 1, 1987. This decision was affirmed on appeal to the Montana Supreme Court. The June 7, 2005 decision of the Montana Supreme Court created a common fund and applied the decision retroactively. The cost is estimated to be \$1.4 to \$1.9 million dollars for MSF. The decision of the Montana Supreme Court is estimated to impact the Old Fund liability in the amount of \$800,000 for claims that occurred before July 1, 1990. This was not a case against the Montana State Fund, but the holding of this decision applies to Montana State Fund and the Old Fund. Implementation of the common fund has begun under the direction of the Workers Compensation Court. This case has been recorded in the MSF loss reserves.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (MCA 39-71-710) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total benefits, Satterlee, et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the

establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. Briefing is to be completed by September 15, 2005, and oral argument is set for October 7, 2005. Should MCA 39-71-710 ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at \$135 million to \$186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is \$93 million to \$116 million. The potential for liability for MSF and the State of Montana is reasonably possible. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to MCA 39-71-710, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of MCA 39-71-710 on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found MCA 39-71-710 to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting Reesor's permanent partial benefit pursuant to MCA 39-71-710 violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at \$2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of \$1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

B. Federal Contingencies

USDA Commodities – In fiscal year 2005, the State distributed \$6,963,170 in commodities. The value of the commodities stored in the State's warehouses was \$1,888,055 at June 30, 2005, for which the State is liable in the event of loss.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2005, the following assessments (by fund type) were outstanding (in thousands):

| | | State Special Revenue | Permanent Trust | Debt Service | Capital Projects |
|-----------------|---------|-----------------------------|--------------------|-----------------|---------------------|
| Taxes | General | | | | |
| Coal severance | \$ 932 | \$264 | \$1,765 | \$32 | \$408 |
| Oil & gas | 2,328 | 252 | - | - | - |
| Corporation tax | 6,035 | - | - | - | - |
| Total | \$9,295 | \$516 | \$1,765 | \$32 | \$408 |

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2005. The corporations have appealed the decision. As of June 30, 2005, these include \$13,089,240 of General Fund corporation tax refunds.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2005. As of June 30, 2005, these include \$5,764,997 of protested General Fund property taxes.

NOTE 17. SUBSEQUENT EVENTS

Bond Issues

On July 1, 2005, the Montana Board of Housing issued \$516,000 of Series 2005A-1 Single Family Mortgage Revenue bonds (Montana Homeownership Network Pool Program). The bonds are limited-obligation, taxable revenue bonds issued by the board on behalf of Neighborhood Housing Services, Incorporated of Great Falls, Montana and the Montana Home Ownership Network.

\$30,280,000 in Series 2005 RA Single Family Program bonds were issued on October 19, 2005.

C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2005, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Fund to the Economic Development Bonds Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$130,476,641. The BOI's exposure to bond issues of the Economic Development Bonds Fund was \$85,160,000, while exposure to bond issues and surety bonds of the Facility Finance Authority was \$45,316,641.

On July 21, 2005, Montana State University issued \$25,750,000 Series J 2005 Facilities Improvement Revenue bonds for the purposes of funding the renovation, furnishing, and equipping of the Strand Union Building, the Health & PE Complex, and constructing the Black Box Theater.

In association with the Series J 2005 bonds, the university has entered into an interest rate swap agreement with Deutsche Bank AG that the university will pay D-B a fixed rate of interest (3.953%), and D-B will pay the university a floating rate based upon the Bond Market Association (BMA) index, in each case based upon a notational amount equal to the principal amount of the Series J 2005 bonds outstanding. The purpose of the interest rate agreement is generally to convert the university's floating rate obligations with respect to the Series J 2005 bonds to fixed-rate obligations.

On September 15, 2005, The University of Montana issued \$31,095,000 of Series J 2005 Facilities Improvement and Refunding Revenue bonds, with interest ranging from 3.00 percent to 4.50 percent. The proceeds from the issue, together with certain resources of the Board of Regents and the university, will provide funds to pay and discharge a portion of the Series F Revenue bonds, and finance or refinance the costs of acquisition, construction, furnishing, equipping,

renovation or improvement of certain university facilities.

In addition, the university intends to refund the remaining unrefunded portion of the Series F 1999 Revenue bonds by issuing variable-rate parity bonds in 2010 (Series K 2010 Parity bonds) for a maximum principal amount of \$47,000,000. As part of the planned issuance, the university entered into a forward-swap interest rate agreement on August 26, 2005. The purpose of the rate swap is to convert the variable-rate Series K 2010 Parity bonds into a fixed-rate obligation. The university received approximately \$2,000,000 from the counter party, which will be used to pay costs associated with Series J 2005 Revenue bonds issuance. The payment received from the counterparty was consideration for the fixed-rate payable under this obligation being higher than interest rates on similar obligations at the time the agreement was signed.

On August 18, 2005, the Board of Investments issued \$825,000 Series 2005 Municipal Finance Consolidation Act bonds for the Cut Bank Elementary Schools Qualified Zone Academy Program.

On August 18, 2005, the Board of Investments issued \$625,000 Series 2005 Municipal Finance Consolidation Act Bonds for the Cut Bank High Schools Qualified Zone Academy Program.

On August 4, 2005 the Montana Facility Finance Authority issued a \$1,200,000 bond issue for the Boyd Andrew Prerelease Center. As discussed in Note 11, this debt is not a commitment of the State of Montana.

On August 23, 2005, the Montana Facility Finance Authority issued a \$3,434,000 bond issue to refinance existing debt for Missions United.

On September 21, 2005, the Montana Facility Finance Authority issued a \$28,545,000 bond issue to refund existing bonds and construct an additional 32 independent living units at Hillcrest facility.

NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

A. Constitutionality of IRIS Funding

In the 2004 CAFR, the State provided a disclosure related to legal compliance issues involved with the funding of the IRIS project (Integrated Revenue Information System). The State's bond counsel and the State's Legislative Audit Division had raised several legal concerns related to legislation passed by the State's Legislature.

In accordance with the Fifty-Ninth Legislative Assembly, House Bill 745, funds were appropriated from the General Fund to the State Special Revenue Fund for repayment of the IRIS loan. In fiscal year 2005, the Department of Revenue used the transferred funds to repay the interfund advance to the Coal Severance Tax Permanent Fund.

B. Constitutionality of Retirement Plan Funding

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2005, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employee Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

A special session of the Montana Legislature has been call for December 14, 2005 to address this retirement system funding issue.

BUDGETARY COMPARISON SCHEDULE
GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(expressed in thousands)

| GENERAL FUND | | | | |
|---|----------------------------|-------------------------|---------------|---------------------------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| REVENUES | | | | |
| Licenses/permits | \$ 126,303 | \$ 126,303 | \$ 127,114 | \$ 811 |
| Taxes: | | | | |
| Natural resource | 37,309 | 37,309 | 78,202 | 40,893 |
| Individual income | 577,891 | 577,891 | 635,808 | 57,917 |
| Corporate income | 69,249 | 69,249 | 94,014 | 24,765 |
| Property | 175,805 | 175,805 | 175,392 | (413) |
| Fuel | - | - | - | - |
| Other | 204,570 | 204,570 | 202,530 | (2,040) |
| Charges for services/fines/forfeits/settlements | 38,695 | 38,695 | 31,928 | (6,767) |
| Investment earnings | 17,349 | 17,349 | 10,596 | (6,753) |
| Sale of documents/merchandise/property | 344 | 344 | 326 | (18) |
| Rentals/leases/royalties | 53 | 53 | 45 | (8) |
| Contributions/premiums | - | - | - | - |
| Grants/contracts/donations | 1,645 | 1,645 | 2,591 | 946 |
| Federal | 17,631 | 17,631 | 26,041 | 8,410 |
| Federal indirect cost recoveries | 142 | 142 | 145 | 3 |
| Other revenues | 1,738 | 1,738 | 215 | (1,523) |
| Total revenues | 1,268,724 | 1,268,724 | 1,384,947 | 116,223 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 198,773 | 187,799 | 187,220 | 579 |
| Public safety/corrections | 130,978 | 144,069 | 142,824 | 1,245 |
| Transportation | 181 | 205 | 199 | 6 |
| Health/social services | 275,120 | 279,597 | 277,571 | 2,026 |
| Education/cultural | 660,754 | 659,550 | 654,319 | 5,231 |
| Resource/recreation/environment | 20,294 | 31,521 | 31,466 | 55 |
| Economic development/assistance | 22,821 | 24,998 | 23,869 | 1,129 |
| Debt service: | | | | |
| Principal retirement | 3,894 | 4,001 | 613 | 3,388 |
| Interest/fiscal charges | 122 | 122 | 122 | - |
| Capital outlay | 1,547 | 1,840 | 1,047 | 793 |
| Total expenditures | 1,314,484 | 1,333,702 | 1,319,250 | 14,452 |
| Excess of revenue over (under) expenditures | (45,760) | (64,978) | 65,697 | 130,675 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loans issued | - | - | - | - |
| Bonds issued | - | - | - | - |
| Refunding bonds issued | - | - | - | - |
| General capital asset sale proceeds | 71 | 71 | 22 | (49) |
| Transfers in | 69,334 | 69,334 | 64,760 | (4,574) |
| Transfers out | (20,321) | (33,093) | (31,030) | 2,063 |
| Total other financing sources (uses) | 49,084 | 36,312 | 33,752 | (2,560) |
| Net change in fund balances (Budgetary basis) | 3,324 | (28,666) | 99,449 | 128,115 |
| RECONCILIATION OF BUDGETARY/GAAP REPORTING | | | | |
| 1. Securities lending income | - | - | 1,436 | 1,436 |
| 2. Securities lending costs | - | - | (1,375) | (1,375) |
| 3. Bond premium | - | - | - | - |
| 4. Inception of lease/installment contract | - | - | 264 | 264 |
| 5. Adjust expenditures for encumbrances | - | - | 1,768 | 1,768 |
| 6. Adjustments for nonbudgeted activity | - | - | 58,835 | 58,835 |
| Net change in fund balances (GAAP basis) | 3,324 | (28,666) | 160,377 | 189,043 |
| Unreserved fund balances - July 1 | 132,873 | 132,873 | 132,873 | - |
| Prior period adjustments | - | - | (2,299) | (2,299) |
| Decrease (increase): | | | | |
| Encumbrances reserve | - | - | (1,701) | (1,701) |
| Long-term loans/notes receivable reserve | - | - | 17 | 17 |
| Advances to other funds reserve | - | - | - | - |
| Special revenue reserve | - | - | - | - |
| Escheated property reserve | - | - | 408 | 408 |
| Unreserved fund balances - June 30 | \$ 136,197 | \$ 104,207 | \$ 289,675 | \$ 185,468 |

The notes to the required supplementary information are an integral part of this schedule.

| STATE SPECIAL REVENUE FUND | | | | FEDERAL SPECIAL REVENUE FUND | | | |
|----------------------------|-----------------|-------------|-------------------------------|------------------------------|-----------------|------------|-------------------------------|
| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
| \$ 112,526 | \$ 112,526 | \$ 116,681 | \$ 4,155 | \$ - | \$ - | \$ - | \$ - |
| 42,062 | 42,062 | 83,041 | 40,979 | - | - | - | - |
| - | - | 1,109 | 1,109 | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 49 | 49 | 9,375 | 9,326 | - | - | - | - |
| 196,454 | 196,454 | 191,900 | (4,554) | - | - | - | - |
| 33,320 | 33,320 | 54,064 | 20,744 | - | - | - | - |
| 75,562 | 75,562 | 73,987 | (1,575) | 45,326 | 45,326 | 68,978 | 23,652 |
| 5,677 | 5,677 | 6,723 | 1,046 | 430 | 430 | 473 | 43 |
| 6,732 | 6,732 | 4,797 | (1,935) | 1 | 1 | - | (1) |
| 413 | 413 | 775 | 362 | - | - | - | - |
| 7,500 | 7,500 | 7,731 | 231 | - | - | - | - |
| 24,822 | 24,822 | 17,429 | (7,393) | 45 | 45 | 31 | (14) |
| 24,412 | 24,412 | 11,554 | (12,858) | 1,574,522 | 1,574,522 | 1,319,355 | (255,167) |
| 151 | 151 | 34,211 | 34,060 | 3,484 | 3,484 | 46,724 | 43,240 |
| 3,540 | 3,540 | 2,936 | (604) | 1,810 | 1,810 | 233 | (1,577) |
| 533,220 | 533,220 | 616,313 | 83,093 | 1,625,618 | 1,625,618 | 1,435,794 | (189,824) |
| 106,923 | 107,842 | 93,467 | 14,375 | 11,631 | 18,342 | 8,945 | 9,397 |
| 41,426 | 44,285 | 37,844 | 6,441 | 53,813 | 100,110 | 50,141 | 49,969 |
| 415,860 | 437,515 | 212,193 | 225,322 | 416,581 | 384,852 | 276,354 | 108,498 |
| 70,225 | 70,190 | 59,873 | 10,317 | 884,991 | 900,638 | 837,983 | 62,655 |
| 77,061 | 77,479 | 77,155 | 324 | 207,425 | 208,284 | 172,782 | 35,502 |
| 142,666 | 144,977 | 100,120 | 44,857 | 74,890 | 93,357 | 55,947 | 37,410 |
| 68,587 | 72,368 | 65,859 | 6,509 | 76,996 | 82,080 | 64,999 | 17,081 |
| 9,795 | 9,175 | 432 | 8,743 | 162 | 359 | 196 | 163 |
| 1,060 | 1,060 | 1,060 | - | 29 | 29 | 29 | - |
| 68,509 | 74,548 | 27,360 | 47,188 | 48,991 | 62,271 | 24,735 | 37,536 |
| 1,002,112 | 1,039,439 | 675,363 | 364,076 | 1,775,509 | 1,850,322 | 1,492,111 | 358,211 |
| (468,892) | (506,219) | (59,050) | 447,169 | (149,891) | (224,704) | (56,317) | 168,387 |
| 570 | 570 | - | (570) | - | - | - | - |
| 198,225 | 198,225 | 133,988 | (64,237) | - | - | - | - |
| 5,070 | 5,070 | 5,070 | - | - | - | - | - |
| 193 | 193 | 141 | (52) | 5 | 5 | 3 | (2) |
| 208,677 | 208,677 | 136,292 | (72,385) | 36,383 | 36,383 | 6,446 | (29,937) |
| (20,254) | (15,984) | (4,692) | 11,292 | (50,994) | (46,917) | (13,447) | 33,470 |
| 392,481 | 396,751 | 270,799 | (125,952) | (14,606) | (10,529) | (6,998) | 3,531 |
| (76,411) | (109,468) | 211,749 | 321,217 | (164,497) | (235,233) | (63,315) | 171,918 |
| - | - | 1,033 | 1,033 | - | - | - | - |
| - | - | (978) | (978) | - | - | - | - |
| - | - | 6,653 | 6,653 | - | - | - | - |
| - | - | 131 | 131 | - | - | 122 | 122 |
| - | - | 11,465 | 11,465 | - | - | 1,510 | 1,510 |
| - | - | (16,330) | (16,330) | - | - | 57,400 | 57,400 |
| (76,411) | (109,468) | 213,723 | 323,191 | (164,497) | (235,233) | (4,283) | 230,950 |
| (73,620) | (73,620) | (73,620) | - | (10,271) | (10,271) | (10,271) | - |
| - | - | 463 | 463 | - | - | 277 | 277 |
| - | - | 2,804 | 2,804 | - | - | 12,858 | 12,858 |
| - | - | (8,942) | (8,942) | - | - | 55 | 55 |
| - | - | (2,923) | (2,923) | - | - | 100 | 100 |
| - | - | (181,050) | (181,050) | - | - | (238) | (238) |
| - | - | 37 | 37 | - | - | - | - |
| \$ (150,031) | \$ (183,088) | \$ (49,508) | \$ 133,580 | \$ (174,768) | \$ (245,504) | \$ (1,502) | \$ 244,002 |

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-1. BUDGETARY REPORTING

A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and along with other information develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the

Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2005, reverted governmental fund appropriations were as follows: General Fund - \$26.5 million, State Special Revenue Fund - \$32.3 million, and Federal Special Revenue Fund - \$52.8 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

REQUIRED SUPPLEMENTARY INFORMATION
PENSION PLAN INFORMATION

Pension Plan Information
Single Employer Systems
Schedule of Funding Progress
(in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|--|-----------------------|--------------------|----------------------------|---|
| HPORS | | | | | | |
| 07/01/02 | 81,734 | 94,850 | 13,116 | 86.17% | 7,536 | 174.04% |
| 07/01/04 | 79,104 | 104,069 | 24,965 | 76.01% | 7,844 | 318.27% |
| 06/30/05 | 82,050 | 112,938 | 30,888 | 72.65% | 9,104 | 339.28% |
| JRS | | | | | | |
| 07/01/02 | 44,963 | 30,882 | (14,081) | 145.60% | 4,000 | (352.03)% |
| 07/01/04 | 45,134 | 34,724 | (10,410) | 129.98% | 4,403 | (236.43)% |
| 06/30/05 | 47,552 | 34,525 | (13,027) | 137.73% | 4,462 | (291.95)% |

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

NOTE RSI-2. PENSION PLAN INFORMATION

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

| | Pension Plan Information | |
|--|--|--|
| | Single Employer Systems | |
| | HPORS | JRS |
| Contributions (in thousands) | | |
| Employer | \$3,324 | \$1,162 |
| Employee | 862 | 394 |
| License and registration fees | 669 | |
| Actuarial valuation date | 6/30/05 | 6/30/05 |
| Actuarial cost method | Entry age | Entry age |
| Amortization method | Level percentage of total salaries, open | Level percentage of total salaries, open |
| Remaining amortization period | 21.1 years | 30 years |
| Asset valuation method | 4 year smoothed market | 4 year smoothed market |
| Actuarial assumptions: | | |
| Investment rate of return | 8.0% | 8.0% |
| Projected salary increases (includes inflation factor) | 4.25% | 4.25% |
| Merit | 0%-7.3% | None |
| Postretirement benefit increases | None | None |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

PEACE CORPS

| | | |
|--------------|--------------------------------|----------------|
| 08.999 | Miscellaneous Non-Major Grants | 8,898 |
| TOTAL | | \$8,898 |

DEPARTMENT OF AGRICULTURE

| | | |
|--------|---|------------|
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | 971,989 |
| 10.069 | Conservation Reserve Program | 23,700 |
| 10.162 | Inspection Grading and Standardization | 84,598 |
| 10.163 | Market Protection and Promotion | 547,682 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants | 8,642 |
| 10.210 | Food and Agricultural Sciences National Needs | 1,468 |
| 10.303 | Integrated Programs: From Univ. of Calif. Davis | 4,688 |
| 10.500 | Cooperative Extension Service | 3,421,204 |
| 10.500 | Cooperative Extension Service: From Utah State | 383 |
| 10.500 | Cooperative Extension Service: From Wash. State | 20,249 |
| 10.550 | Food Donation | 2,422,634 |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, & Children | 13,868,293 |
| 10.558 | Child and Adult Care Food Program | 8,826,552 |
| 10.560 | State Administrative Expenses for Child Nutrition | 927,390 |
| 10.565 | Commodity Supplemental Food Program | 1,832,599 |
| 10.567 | Food Distribution Program on Indian Reservations | 3,235,678 |
| 10.570 | Nutrition Services Incentive | 947,744 |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | 75,359 |
| 10.574 | Team Nutrition Grants | 237,964 |
| 10.579 | Child Nutrition Discretionary Grants Limited Availability | 18,759 |
| 10.601 | Market Access Program: From US Livestock Gen. Exp | 2,075 |
| 10.601 | Market Access Program: From West US Ag Trade Assoc. | 2,394 |
| 10.652 | Forestry Research | 54,854 |
| 10.664 | Cooperative Forestry Assistance | 4,538,893 |
| 10.666 | Schools and Roads - Grants to Counties | 107,865 |
| 10.672 | Rural Development, Forestry, and Communities | 123,822 |
| 10.676 | Forest Legacy Program | 3,289,000 |
| 10.677 | Forest Land Enhancement Program | 167,064 |
| 10.700 | National Agricultural Library | 13,705 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------------|
| 10.773 Rural Business Opportunity Grants | 146,750 |
| 10.853 LOCAL Television Loan Guarantee Program | 75,524 |
| 10.901 Resource Conservation and Development | 50,000 |
| 10.902 Soil and Water Conservation | 210,795 |
| 10.904 Watershed Protection and Flood Prevention | 20,000 |
| 10.920 Grassland Reserve Program | 3,003 |
| 10.999 Miscellaneous Non-Major Grants | 1,124,484 |
| 10.999 Miscellaneous Non-Major Grants: From Univ. of Wyoming | 25,965 |
| 10.999 Miscellaneous Non-Major Grants: From FT Belknap Comm. Con. | 7,640 |
| TOTAL | \$47,441,408 |

CHILD NUTRITION CLUSTER

| | |
|---|---------------------|
| 10.553 School Breakfast Program | 4,112,660 |
| 10.555 National School Lunch Program | 16,384,953 |
| 10.556 Special Milk Program for Children | 42,361 |
| 10.559 Summer Food Service Program for Children | 698,828 |
| TOTAL | \$21,238,802 |

EMERGENCY FOOD ASSISTANCE CLUSTER

| | |
|---|--------------------|
| 10.568 Emergency Food Assistance Program (Administrative Costs) | 150,563 |
| 10.569 Emergency Food Assistance Program (Food Commodities) | 852,457 |
| TOTAL | \$1,003,020 |

FOOD STAMP CLUSTER

| | |
|--|---------------------|
| 10.551 Food Stamps | 86,992,930 |
| 10.561 State Administrative Matching Grants for Food Stamp Program | 7,601,444 |
| TOTAL | \$94,594,374 |

SCHOOLS AND ROADS CLUSTER

| | |
|--|---------------------|
| 10.665 Schools and Roads: Grants to States | 12,495,791 |
| TOTAL | \$12,495,791 |

DEPARTMENT OF COMMERCE

| | |
|--|--------------------|
| 11.300 Economic Development: Grants for Public Works and Infrastructure Development: From Bear Paw Developm | 886,506 |
| 11.550 Public Telecommunication Facilities-Planning and Construction | 305,000 |
| 11.552 Technology Opportunities Program | 2,500 |
| TOTAL | \$1,194,006 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

PUBLIC WORKS AND E.D. CLUSTER

| | | |
|--------------|--------------------------------|-----------------|
| 11.307 | Economic Adjustment Assistance | 18,883 |
| TOTAL | | \$18,883 |

DEPARTMENT OF DEFENSE

| | | |
|--------------|---|---------------------|
| 12.112 | Payments to States in Lieu of Real Estate Taxes | 18,158 |
| 12.400 | Military Construction National Guard | 13,012,446 |
| 12.401 | National Guard Military Operations and Maintenance Projects | 12,851,751 |
| 12.404 | National Guard Civilian Youth Opportunities | 1,744,314 |
| 12.999 | Miscellaneous Non-Major Grants | 3,868,552 |
| TOTAL | | \$31,495,221 |

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

| | | |
|--------------|--|---------------------|
| 14.103 | Interest Reduction Payments Rental and Cooperative Housing for Lower Income Families | 237,592 |
| 14.169 | Housing Counseling Assistance Program | 117,539 |
| 14.228 | Community Development Block Grant/States Program | 8,632,386 |
| 14.231 | Emergency Shelter Grants Program | 390,208 |
| 14.235 | Supportive Housing Program | 197,176 |
| 14.239 | Home Investment Partnerships Program | 7,045,241 |
| 14.241 | Housing Opportunities for Persons with AIDS | 489,069 |
| 14.246 | Community Development Block Grants/Brownfields Economic Development Initiative | 119,344 |
| 14.871 | Section 8 Housing Choice Vouchers | 16,983,860 |
| TOTAL | | \$34,212,415 |

SECTION 8 PROJECT-BASED CLUSTER

| | | |
|--------------|---|---------------------|
| 14.195 | Section 8 Housing Assistance Payments Program Special Allocations | 16,918,252 |
| 14.856 | Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation | 2,015,676 |
| TOTAL | | \$18,933,928 |

DEPARTMENT OF THE INTERIOR

| | | |
|--------|--|---------|
| 15.043 | Indian Child and Family Education | 3,769 |
| 15.114 | Indian Education: Higher Education Grant Program | 128,296 |
| 15.130 | Indian Education - Assistance to Schools | 41,862 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------|---|-----------|
| 15.224 | Cultural Resource Management | 149,620 |
| 15.225 | Recreation Resource Management | 16,010 |
| 15.228 | Wildland Urban Interface Community and Rural Fire Assistance | 1,268,959 |
| 15.250 | Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining | 1,039,090 |
| 15.252 | Abandoned Mine Land Reclamation (AMLR) Program | 3,888,093 |
| 15.299 | Miscellaneous Non-Major Grants | 298,494 |
| 15.504 | Water Reclamation and Water Reuse Program | 51,040 |
| 15.608 | Fish and Wildlife Management Assistance | 64,390 |
| 15.615 | Cooperative Endangered Species Conservation Fund | 4,821,308 |
| 15.617 | Wildlife Conservation and Appreciation | 210,058 |
| 15.632 | Conservation Grants Private Stewardship for Imperiled Species | 87,820 |
| 15.634 | State Wildlife Grants | 1,608,958 |
| 15.637 | Migratory Bird Joint Ventures | 17,627 |
| 15.642 | Challenge Cost Share | 12,104 |
| 15.808 | U.S. Geological Survey-Research and Data Acquisition | 53,982 |
| 15.809 | National Spatial Data Infrastructure Competitive Cooperative Agreements Program | 986 |
| 15.904 | Historic Preservation Fund Grants-in-Aid | 1,131,008 |
| 15.912 | National Historic Landmark | 62,853 |
| 15.914 | National Register of Historic Places | 51,615 |
| 15.915 | Technical Preservation Services | 7,200 |
| 15.916 | Outdoor Recreation: Acquisition, Development and Planning | 394,456 |
| 15.923 | National Center for Preservation Technology and Training | 77,130 |
| 15.999 | Miscellaneous Non-Major Grants | 4,037,316 |
| 15.FFA | FWS Program | 28,163 |

TOTAL \$19,552,207

FISH AND WILDLIFE CLUSTER

| | | |
|--------|------------------------|-----------|
| 15.605 | Sport Fish Restoration | 7,322,012 |
| 15.611 | Wildlife Restoration | 5,837,180 |

TOTAL \$13,159,192

DEPARTMENT OF JUSTICE

| | | |
|--------|---|-----------|
| 16.001 | Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis | 18,038 |
| 16.202 | Offender Reentry Program | 1,088,498 |
| 16.523 | Juvenile Accountability Incentive Block Grants | 678,761 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------------|
| 16.525 Grants to Reduce Violent Crimes Against Women on Campus | 90,837 |
| 16.529 Education and Training to End Violence Against and Abuse of Women with Disabilities | 84,074 |
| 16.540 Juvenile Justice and Delinquency Prevention: Allocation to States | 1,096,929 |
| 16.547 Victims of Child Abuse | 50,595 |
| 16.548 Title V Delinquency Prevention | 100,000 |
| 16.549 Part E State Challenge Activities | (1,648) |
| 16.550 State Justice Statistics Program For Statistical Analysis Centers | 44,354 |
| 16.554 National Criminal History Improvement Program (NCHIP) | 629,662 |
| 16.560 National Institute of Justice Research, Evaluation, and Development Project Grants | 71,286 |
| 16.575 Crime Victim Assistance | 1,509,102 |
| 16.576 Crime Victim Compensation | 356,000 |
| 16.579 Byrne Formula Grant Program | 2,346,139 |
| 16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog | 448,754 |
| 16.585 Drug Court Discretionary Grant Program | 59,320 |
| 16.588 Violence Against Women Formula Grants | 963,778 |
| 16.590 Grants to Encourage Arrest Policies and Enforcement of Protection Orders | 190,589 |
| 16.592 Local Law Enforcement Block Grants Program | 156,888 |
| 16.593 Residential Substance Abuse Treatment for State Prisoners | 358,851 |
| 16.609 Community Prosecution and Project Safe Neighborhoods | 27,987 |
| 16.710 Public Safety Partnership and Community Policing Grants | 4,838,554 |
| 16.727 Enforcing Underage Drinking Laws Program | 357,660 |
| 16.999 Miscellaneous Non-Major Grants | 81,709 |
| TOTAL | \$15,646,717 |

DEPARTMENT OF LABOR

| | |
|---|------------|
| 17.002 Labor Force Statistics | 772,217 |
| 17.005 Compensation and Working Conditions | 83,383 |
| 17.203 Labor Certification for Alien Workers | 80,170 |
| 17.225 Unemployment Insurance | 84,179,182 |
| 17.235 Senior Community Service Employment Program | 380,766 |
| 17.245 Trade Adjustment Assistance-Workers | 1,702,133 |
| 17.261 Employment and Training Administration Pilots, Demonstrations, and Research Projects | 39,821 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|--|---------------------|
| 17.267 WIA Incentive Grants - Section 503 Grants to States | 782,650 |
| 17.504 Consultation Agreements | 403,754 |
| 17.600 Mine Health and Safety Grants | 124,854 |
| 17.720 Employment Programs for People with Disabilities: From MJTP Inc | 473,658 |
| 17.802 Veterans' Employment Program | 933 |
| 17.999 National Occupational Information Coordinating Committee: From Nebraska | 45,834 |
| TOTAL | \$89,069,355 |

EMPLOYMENT SERVICES CLUSTER

| | |
|--|--------------------|
| 17.207 Employment Service: From MJTP Inc | 5,854,345 |
| 17.207 Employment Service: From South Carolina | 2,428 |
| 17.207 Employment Service: From North Carolina | 2,380 |
| 17.801 Disabled Veterans Outreach Program (DVOP) | 518,694 |
| 17.804 Local Veterans' Employment Representative Program | 64,982 |
| TOTAL | \$6,442,829 |

WORKFORCE INVESTMENT ACT CLUSTER

| | |
|-------------------------------|---------------------|
| 17.258 WIA Adult Program | 2,916,478 |
| 17.259 WIA Youth Activities | 2,967,213 |
| 17.260 WIA Dislocated Workers | 4,197,786 |
| TOTAL | \$10,081,477 |

DEPARTMENT OF STATE

| | |
|---|------------------|
| 19.401 Educational Exchange - University Lecturers (Professors) and Research Scholars | 23,095 |
| 19.404 Professional Development International Educators/Administrators | 96,803 |
| 19.406 College & University Affiliations Program: From Acad. for Educ. Develop. | 123,012 |
| 19.999 Miscellaneous Grants: From Acad. for Educ. Develop. | 174,073 |
| TOTAL | \$416,983 |

DEPARTMENT OF TRANSPORTATION

| | |
|---|-----------|
| 20.106 Airport Improvement Program | 2,097,176 |
| 20.218 National Motor Carrier Safety | 1,231,021 |
| 20.219 Recreational Trails Program | 665,257 |
| 20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities | 333,028 |
| 20.607 Alcohol Open Container Requirements | 3,545,665 |
| 20.608 Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 2,347,749 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|--|---|----------------------|
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | 106,672 |
| 20.999 | Miscellaneous Non-major | 41,582 |
| TOTAL | | \$10,368,150 |
| FEDERAL TRANSIT CLUSTER | | |
| 20.500 | Federal Transit Capital Improvement Grants | 695,757 |
| 20.507 | Federal Transit - Formula Grants | 1,309,407 |
| TOTAL | | \$2,005,164 |
| HIGHWAY PLAN. & CONST. CLUSTER | | |
| 20.205 | Highway Planning and Construction | 300,368,480 |
| TOTAL | | \$300,368,480 |
| HIGHWAY SAFETY CLUSTER | | |
| 20.600 | State and Community Highway Safety: From Healthy Mothers, | 1,269,273 |
| 20.602 | Occupant Protection | 197,487 |
| 20.603 | Federal Highway Safety Data Improvements Incentive Grants | 28,988 |
| 20.604 | Safety Incentive Grants for Use of Seatbelts | 116,478 |
| 20.605 | Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons | 3,314 |
| TOTAL | | \$1,615,540 |
| DEPARTMENT OF TREASURY | | |
| 21.999 | Miscellaneous Non-Major Grants | 4,799,389 |
| TOTAL | | \$4,799,389 |
| EQUAL EMPLOYMENT OPPORTUNITY COMMISSION | | |
| 30.002 | Employment Discrimination-State and Local Fair Employment Practices | 130,026 |
| TOTAL | | \$130,026 |
| GENERAL SERVICES ADMINISTRATION | | |
| 39.003 | Donation of Federal Surplus Personal Property | 734,521 |
| 39.011 | Election Reform Payments | 2,358,582 |
| TOTAL | | \$3,093,103 |
| NATIONAL AERONAUTICS AND SPACE ADMINISTRATION | | |
| 43.001 | Aerospace Education Services Program | 45,913 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|--|------------------|
| 43.002 Technology Transfer: From Texam AM Univ. | 123,486 |
| 43.002 Technology Transfer: From Wright Pat AFB | 161,212 |
| 43.999 Miscellaneous Non-Major Grants | 6,682 |
| 43.999 Miscellaneous Non-Major Grants: From MT Aerospace Auth. | 121,827 |
| TOTAL | \$459,120 |

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

| | |
|---|--------------------|
| 45.024 Promotion of the Arts-Grants to Organizations and Individuals | 44,200 |
| 45.025 Promotion of the Arts-Partnership Agreements | 642,200 |
| 45.129 Promotion of the Humanities-Federal/State Partnership | (1,230) |
| 45.129 Promotion of the Humanities-Federal/State Partnership: From MT Comm Hummanit. | 31,653 |
| 45.149 Promotion of the Humanities Division of Preservation and Access | 6,381 |
| 45.149 Promotion of the Humanities Division of Preservation and Access: From Oregon State Univ. | 39 |
| 45.301 Museum for America Grants | 887,668 |
| 45.313 Librarians for the 21st Century | 56,009 |
| 45.999 Miscellaneous Grants | 51,698 |
| TOTAL | \$1,718,618 |

NATIONAL SCIENCE FOUNDATION

| | |
|--|--------------------|
| 47.041 Engineering Grants | (6,196) |
| 47.074 Biological Sciences | 166,679 |
| 47.075 Social, Behavioral, and Economic Sciences | 34,063 |
| 47.076 Education and Human Resources | 3,454,554 |
| 47.076 Education and Human Resources: From Asso. of Am. Colleges | 10,762 |
| 47.999 Miscellaneous Non-Major Grants | 2,709 |
| TOTAL | \$3,662,571 |

SMALL BUSINESS ADMINISTRATION

| | |
|--|------------------|
| 59.037 Small Business Development Center: From TechRanch | 572,208 |
| 59.046 Microloan Program | 138,738 |
| 59.999 Miscellaneous Non-Major Grants: From Tech Venture | 11,799 |
| TOTAL | \$722,745 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

DEPARTMENT OF VETERANS AFFAIRS

| | | |
|--------------|---|--------------------|
| 64.010 | VETERANS NURSING HOME CARE | 22,867 |
| 64.014 | Veterans State Domiciliary Care | 83,165 |
| 64.015 | Veterans State Nursing Home Care | 3,211,238 |
| 64.120 | Post-Vietnam Era Veterans' Educational Assistance | 1,113 |
| 64.124 | All-Volunteer Force Educational Assistance | 79,979 |
| 64.203 | State Cemetery Grants | 84,665 |
| TOTAL | | \$3,483,027 |

ENVIRONMENTAL PROTECTION AGENCY

| | | |
|--------|---|-----------|
| 66.433 | State Underground Water Source Protection | 98,098 |
| 66.436 | Surveys, Studies, Investigations & Demonstrations of the Clean Water Act | 37,695 |
| 66.439 | Targeted Watershed Grants | 10,373 |
| 66.454 | Water Quality Management Planning | 111,158 |
| 66.458 | Capitalization Grants For State Revolving Funds | 1,955,527 |
| 66.460 | Nonpoint Source Implementation Grants | 2,166,672 |
| 66.461 | Wetland Program Grants | 404,617 |
| 66.463 | Water Quality Cooperative Agreements | 12,959 |
| 66.467 | Wastewater Operator Training Grant Program (Technical Assistance) | 53,172 |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Fund | 4,624,707 |
| 66.471 | State Grants to Reimburse Operators of Small Water Sys for Training Certification Costs | 149,845 |
| 66.474 | Water Protection Grants to the States | 95,471 |
| 66.599 | Miscellaneous Non-Major Grants | 25,000 |
| 66.605 | Performance Partnership Grants | 5,630,999 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants | 30,733 |
| 66.607 | Training and Fellowships for the Environmental Protection Agency | 6,894 |
| 66.708 | Pollution Prevention Grants Program | 111,261 |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements | 1,136,461 |
| 66.805 | Leaking Underground Storage Tank Trust Fund Program | 449,872 |
| 66.809 | Superfund State and Indian Tribe Core Program Cooperative Agreements | 185,153 |
| 66.811 | Brownfield Pilots Cooperative Agreements | 23,291 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------------|
| 66.814 Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements: From Colorado St Univ. | 11,530 |
| 66.817 State and Tribal Response Program Grants | 515,663 |
| 66.950 Environmental Education and Training Program: From Univ. of Wisconsin | 18,565 |
| 66.951 Environmental Education Grants | 2 |
| TOTAL | \$17,865,718 |

DEPARTMENT OF ENERGY

| | |
|---|--------------------|
| 81.041 State Energy Program | 396,126 |
| 81.042 Weatherization Assistance for Low-Income Persons | 3,076,316 |
| 81.049 Office of Science Financial Assistance Program: From Inland NW Res All | 302,101 |
| 81.104 Office of Environmental Cleanup and Acceleration: From MSE | 241,326 |
| 81.117 Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training: From Inland NW Res All | 207,910 |
| 81.119 State Energy Program Special Projects | 42,160 |
| 81.999 Miscellaneous Non-Major Grants | 2,068,415 |
| TOTAL | \$6,334,354 |

FEDERAL EMERGENCY MANAGEMENT AGENCY

| | |
|--|----------------|
| 83.547 First Responder Anti-Terrorism Training Assistance: From Butte Silver Bow | 5,258 |
| TOTAL | \$5,258 |

DEPARTMENT OF EDUCATION

| | |
|---|------------|
| 84.002 Adult Education - State Grant Program | 1,411,895 |
| 84.010 Title I Grants To Local Education Agencies | 39,326,670 |
| 84.011 Migrant Education - State Grant Program | 983,049 |
| 84.013 Title I Program for Neglected and Delinquent Children | 128,262 |
| 84.015 National Resource Centers and Fellowships Program for Language and Area or Language: From Univ.of Co. Dev. | 8,721 |
| 84.016 Undergraduate International Studies and Foreign Language | 32,131 |
| 84.048 Vocational Education - Basic Grants to States | 5,777,899 |
| 84.069 Leveraging Educational Assistance Partnership | 225,773 |
| 84.083 Women's Educational Equity Act Program | 181,102 |
| 84.116 Fund for the Improvement of Postsecondary Education | 1,295,910 |
| 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States | 10,373,087 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------|
| 84.129 Rehabilitation Long-Term Training | 4,172 |
| 84.133 National Institute on Disability and Rehabilitation Research | 27,461 |
| 84.133 National Institute on Disability and Rehabilitation Research: From Brain Injury Ass. | 31,701 |
| 84.144 Migrant Education - Coordination Program(B) | 110,000 |
| 84.153 Business and International Education | 25,107 |
| 84.169 Independent Living-State Grants | 263,666 |
| 84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind | 158,065 |
| 84.181 Special Education-Grants for Infants and Families with Disabilities | 2,446,603 |
| 84.184 Safe and Drug-Free Schools and Communities - National Programs: From Hamilton Sch Dist | 4,533 |
| 84.185 Byrd Honors Scholarships | 121,725 |
| 84.186 Safe and Drug-Free Schools and Communities - State Grants | 2,107,319 |
| 84.187 Supported Employment Services for Individuals with Severe Disabilities | 399,447 |
| 84.195 Bilingual Education - Professional Development | 256,217 |
| 84.195 Bilingual Education - Professional Development: From Blackfeet C.C. | 8,938 |
| 84.196 Education for Homeless Children and Youth | 173,575 |
| 84.213 Even Start - State Educational Agencies | 1,070,638 |
| 84.215 Fund for Improvement of Education | 247,930 |
| 84.215 Fund for Improvement of Education: From Nat. Council on Econ. Ed. | 22,878 |
| 84.224 State Grants for Assistive Technology | 327,914 |
| 84.234 Projects with Industry | 107,483 |
| 84.235 Rehabilitation Services Demonstration and Training Programs | 878,640 |
| 84.243 Tech-Prep Education | 491,554 |
| 84.256 Freely Associated States - Education Grant Program: From Univ. of Calif.- Wrt Prj | 43,220 |
| 84.264 Rehabilitation Training-Continuing Education | 89,718 |
| 84.265 Rehabilitation Training-State Vocational Rehabilitation Unit In-Service | 39,755 |
| 84.287 Twenty-First Century Community Learning Centers | 4,516,511 |
| 84.295 Ready-To-Learn Television: From PBS | 88,115 |
| 84.298 State Grants for Innovative Programs | 1,606,991 |
| 84.299 Indian Education - Special Programs | 66,936 |
| 84.303 Technology Innovation Challenge Grants: From Polson Public Sch | 147,855 |
| 84.318 Education Technology State Grants | 2,967,881 |
| 84.323 Special Education - State Program Improvement Grants for Children with Disabilities | 545,225 |
| 84.324 Special Education-Research and Innovation to Improve Services and Results for Children | 425,852 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|--------------|--|----------------------|
| 84.324 | Special Education-Research and Innovation to Improve Services and Results for Children: From Ca State Univ. NR | 121,654 |
| 84.324 | Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of Conn. | 3,258 |
| 84.325 | Special Education - Personnel Preparation to Improve Services and Results for Children | 413,125 |
| 84.326 | Special Education - Technical Assistance and Dissemination to Improve Services and Results | 182,933 |
| 84.330 | Advanced Placement Program | 356,921 |
| 84.331 | Grants to States for Incarcerated Youth Offenders | 24,699 |
| 84.332 | Comprehensive School Reform Demonstration | 902,548 |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP) | 2,340,704 |
| 84.335 | Child Care Access Means Parents in School | 32,051 |
| 84.338 | Reading Excellence | 392,817 |
| 84.340 | Class Size Reduction | (318) |
| 84.346 | Vocational Education - Occupational and Employment Information State Grants | 122,901 |
| 84.357 | Reading First State Grants | 4,277,145 |
| 84.358 | Rural Education | 329,904 |
| 84.360 | Dropout Prevention Programs | 172,976 |
| 84.365 | English Language Acquisition Grants | 378,459 |
| 84.366 | Mathematics and Science Partnerships | 644,010 |
| 84.366 | Mathematics and Science Partnerships: From Libby School Dist | 15,070 |
| 84.367 | Improving Teacher Quality State Grants | 13,403,430 |
| 84.369 | Grants for State Assessments and Related Activities | 3,055,080 |
| 84.998 | American Printing House for the Blind | 6,516 |
| 84.999 | Miscellaneous Non-Major Grants | 279,581 |
| TOTAL | | \$107,023,588 |

SPECIAL EDUCATION CLUSTER

| | | |
|--------------|--------------------------------------|---------------------|
| 84.027 | Special Education - Grants to States | 31,738,554 |
| 84.173 | Special Education - Preschool Grants | 1,240,679 |
| TOTAL | | \$32,979,233 |

STUDENT FINANCIAL ASSISTANCE CLUSTER

| | | |
|--------|---|-----------|
| 84.007 | Federal Supplemental Educational Opportunity Grants | 1,755,052 |
| 84.032 | Federal Family Education Loans | 1,710,957 |
| 84.033 | Federal Work - Study Program | 1,764,596 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|---|--|---------------------|
| 84.038 | Federal Perkins Loan Program - Federal Capital Contributions | 626,297 |
| 84.063 | Federal Pell Grant Program | 32,346,650 |
| 93.364 | Nursing Student Loan Program | 77,740 |
| 93.925 | Scholarships for Health Professions Students from Disadvantaged Backgrounds | 549,083 |
| TOTAL | | \$38,830,375 |
| TRIO CLUSTER | | |
| 84.042 | TRIO-Student Support Services | 904,320 |
| 84.044 | TRIO-Talent Search | 851,035 |
| 84.047 | TRIO-Upward Bound | 1,602,715 |
| 84.066 | TRIO-Educational Opportunity Centers | 567,712 |
| 84.217 | McNair Post - Baccalaureate Achievement | 227,095 |
| TOTAL | | \$4,152,877 |
| NATIONAL ARCHIVES AND RECORDS ADMINISTRATION | | |
| 89.003 | National Historical Publications and Records Grants: From Pacific Lutheran | 42,359 |
| TOTAL | | \$42,359 |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | |
| 93.003 | Public Health and Social Services Emergency Fund | 2,749,383 |
| 93.041 | Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention | 19,370 |
| 93.042 | Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services | 69,552 |
| 93.043 | Special Programs for the Aging-Title III, Part D -DiseasePrevention/Health Promotion Serv | 107,001 |
| 93.048 | Special Programs for the Aging-Title IV and Title II - Discretionary Projects | 176,083 |
| 93.052 | Nation Family Caregiver Support Program | 754,418 |
| 93.104 | Comprehensive Community Mental Health Services for Children with Serious Emot Disturbances | 71,762 |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | 203,684 |
| 93.116 | Project Grant and Cooperative Agreements for Tuberculosis Control Program | 202,070 |
| 93.127 | Emergency Medical Services for Children | 118,525 |
| 93.130 | Primary Care Services-Resource Coordination and Development | 267,652 |
| 93.150 | Projects for Assistance in Transition from Homelessness (PATH) | 283,538 |
| 93.157 | Centers of Excellence | 205,994 |
| 93.161 | Health Program for Toxic Substances and Disease Registry | 502,249 |
| 93.184 | Disabilities Prevention | 302,212 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------|
| 93.217 Family Planning Services | 2,267,481 |
| 93.230 Consolidated Knowledge Development and Application Program | 753,362 |
| 93.234 Traumatic Brain Injury-State Demonstration Grant Program | 95,851 |
| 93.235 Abstinence Education | 147,704 |
| 93.238 Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement | 134,190 |
| 93.241 State Rural Hospital Flexibility Program | 644,256 |
| 93.243 Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 818,332 |
| 93.251 Universal Newborn Hearing Screening | 105,374 |
| 93.256 State Planning Grant - Health Care Access for the Uninsured | 24,935 |
| 93.259 Rural Access to Emergency Devices Grant | 186,653 |
| 93.263 Occupational Safety and Health Training Grant | 61,450 |
| 93.264 Nurse Faculty Loan Program (NFLP) | 21,702 |
| 93.268 Immunization Grant | 4,415,141 |
| 93.282 Mental Health National Research Service Awards for Research Training | 47,275 |
| 93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance | 11,899,197 |
| 93.301 Small Rural Hospital Improvement Grants | 75,315 |
| 93.307 Minority Health and Health Disparities Research | 5,312,500 |
| 93.359 Nurse Education, Practice and Retention Grants | 98,659 |
| 93.556 Promoting Safe and Stable Families | 1,317,019 |
| 93.558 Temporary Assistance for Needy Families (TANF) | 29,934,614 |
| 93.560 Family Support Payments to States-Assistance Payments | 39,851 |
| 93.563 Child Support Enforcement | 9,106,378 |
| 93.566 Refugee and Entrant Assistance-State Administered Programs | 134,279 |
| 93.568 Low Income Home Energy Assistance | 12,806,630 |
| 93.569 Community Services Block Grant | 3,269,359 |
| 93.570 Community Services Block Grant - Discretionary Awards: From Nat. Youth Sports Prg | 63,708 |
| 93.576 Refugee and Entrant Assistance-Discretionary Grants | 15,480 |
| 93.586 State Court Improvement Program | 85,162 |
| 93.590 Community-Based Family Resource and Support Grants | 202,745 |
| 93.597 Grants to States for Access and Visitation Programs | 163,060 |
| 93.599 Chafee Education and Training Vouchers Program (ETV) | 236,202 |
| 93.600 Head Start | 174,313 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|---------------|
| 93.601 Child Support Enforcement Demonstrations and Special Projects | 1,332 |
| 93.617 Voting Access for Individuals with Disabilities - Grants to States | 106,538 |
| 93.630 Developmental Disabilities Basic Support and Advocacy Grants | 425,419 |
| 93.631 Developmental Disabilities Projects of National Significance | 73,543 |
| 93.632 University Centers for Excellence in Developmental Disabilities Ed., Research, and Service | 425,370 |
| 93.643 Children's Justice Grants to States | 92,460 |
| 93.645 Child Welfare Service-State Grant | 688,419 |
| 93.658 Foster Care Title IV-E | 12,047,341 |
| 93.659 Adoption Assistance | 4,354,067 |
| 93.667 Social Services Block Grant | 6,984,225 |
| 93.669 Child Abuse and Neglect State Grants | 179,087 |
| 93.671 Family Violence Prevention and Services/Grants for Battered Women's Shelters | 735,176 |
| 93.674 Chafee Foster Care Independent Living | 578,737 |
| 93.767 State Children's Insurance Program | 12,683,751 |
| 93.822 Health Careers Opportunities Program | 596,267 |
| 93.847 Diabetes, Endocrinology and Metabolism Research | 6,965 |
| 93.894 Resource and Manpower Development in the Environmental Health Sciences | 77,632 |
| 93.912 Rural Health Outreach-Rural Network Developmental Program: From Critical Illness Found. | 29,743 |
| 93.912 Rural Health Outreach-Rural Network Developmental Program: From Univ. of Wash. - Medicine | 951 |
| 93.913 Grants to States for Operation of Offices of Rural Health | 155,190 |
| 93.917 HIV Care Formula Grants | 884,670 |
| 93.938 Cooperative Agreements to Support School Health Programs - Prevent the Spread of HIV | 389,614 |
| 93.940 HIV Prevention Activities-Health Department Based | 1,208,778 |
| 93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 64,146 |
| 93.945 Assistance Program for Chronic Disease Prevention | 926,434 |
| 93.958 Block Grants for Community Mental Health Services | 973,389 |
| 93.959 Block Grants for Prevention and Treatment of Substance Abuse | 7,708,972 |
| 93.969 Geriatric Education Centers | 500,037 |
| 93.970 Health Professions Recruitment Program for Indians | 546,724 |
| 93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants | 342,857 |
| 93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations | 565,157 |
| 93.991 Preventive Health and Health Services Block Grant | 771,186 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|---|---|----------------------|
| 93.994 | Maternal and Child Health Services Block Grant to the States | 2,353,099 |
| 93.999 | Miscellaneous Non-Major Grants | 658,335 |
| TOTAL | | \$148,827,281 |
| AGING CLUSTER | | |
| 93.044 | Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers | 1,797,102 |
| 93.045 | Special Programs for the Aging-Title III, Part C-Nutrition Services | 2,867,598 |
| TOTAL | | \$4,664,700 |
| CHILD CARE CLUSTER | | |
| 93.575 | Child Care and Development Block Grant | 14,097,586 |
| 93.596 | Child Care Mandatory and Matching Funds of the Child Care and Development | 7,705,166 |
| TOTAL | | \$21,802,752 |
| MEDICAID CLUSTER | | |
| 93.775 | State Medicaid Fraud Control Units | 435,504 |
| 93.777 | State Survey and Certification of Health Care Providers and Suppliers | 2,186,704 |
| 93.778 | Medical Assistance Program | 529,005,021 |
| TOTAL | | \$531,627,229 |
| CORPORATION FOR NATIONAL & COMMUNITY SERVICE | | |
| 94.003 | State Commissions | 108,037 |
| 94.004 | Learn and Serve America-School and Community Based Programs: From CORPORATION FOR N | 772,628 |
| 94.005 | Learn & Serve America-Higher Education | 22,698 |
| 94.006 | AmeriCorps | 2,405,939 |
| 94.007 | Planning and Program Development Grants | 46,887 |
| 94.009 | Training and Technical Assistance | 100,609 |
| 94.013 | Volunteers in Service to America | 644,753 |
| TOTAL | | \$4,101,551 |
| SOCIAL SECURITY ADMINISTRATION | | |
| 96.007 | Social Security Research and Demonstration | 100,636 |
| 96.008 | Social Security-Benefits Planning, Assistance, and Outreach Program | 64,533 |
| TOTAL | | \$165,169 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

DISABILITY INSURANCE/SSI CLUSTER

| | | |
|--------------|--|--------------------|
| 96.001 | Social Security - Disability Insurance | 5,271,531 |
| TOTAL | | \$5,271,531 |

HOMELAND SECURITY

| | | |
|--------------|---|--------------------|
| 97.001 | Pilot Demonstration or Earmarked Projects | 471 |
| 97.005 | State and Local Homeland Security Training Program | 37,451 |
| 97.012 | Boating Safety Financial Assistance | 311,396 |
| 97.017 | Pre-Disaster Mitigation (PDM) Competitive Grants | 17,550 |
| 97.021 | Hazardous Materials Assistance Program | 2,167 |
| 97.023 | Community Assistance Program State Support Services Element | 115,095 |
| 97.029 | Flood Mitigation Assistance | 10,300 |
| 97.036 | Public Assistance Grants | 42,676 |
| 97.039 | Hazard Mitigation Grant | 126,242 |
| 97.041 | National Dam Safety Program | 109,864 |
| 97.045 | Cooperating Technical Partners | 14,101 |
| 97.046 | Fire Management Assistance Grant | 54,572 |
| 97.047 | Pre-Disaster Mitigation | 214,801 |
| 97.051 | State and Local All Hazards Emergency Operations Planning | 14,129 |
| 97.052 | Emergency Operations Centers | (34) |
| 97.054 | Community Emergency Response Teams | 203,542 |
| 97.070 | Map Modernization Management Support | 55,843 |
| 97.999 | Miscellaneous Non-Major Grants | 8,469 |
| TOTAL | | \$1,338,635 |

HOMELAND SECURITY CLUSTER

| | | |
|--------------|---|---------------------|
| 97.004 | State Domestic Preparedness Equipment Support Program | 18,537,353 |
| 97.042 | Emergency Management Performance Grants | 742,792 |
| 97.053 | Citizen Corps | 2,578 |
| 97.067 | Homeland Security Grant Program | 622,809 |
| TOTAL | | \$19,905,532 |

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

| | | |
|--------|--|---------|
| 98.001 | USAID Foreign Assistance for Programs Overseas: From Assoc. Liaison Off. | 18,463 |
| 98.999 | Miscellaneous Non-Major Grants | 244,510 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|--------------------------|-------------------------------|-----------|
| | | |
| | <i>TOTAL</i> | \$262,973 |
| OTHER FEDERAL | | |
| 07.000 | National Drug Control Program | 759 |
| 99.999 | Other Federal | 15,563 |
| | <i>TOTAL</i> | \$16,322 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

RESEARCH AND DEVELOPMENT CLUSTER

DEPARTMENT OF AGRICULTURE

| | | |
|--------|---|-----------|
| 10.001 | Agricultural Research-Basic and Applied Research | 69,671 |
| 10.025 | Plant and Animal Disease, Pest Control, and Animal Care | 171,951 |
| 10.072 | Wetlands Reserve Program | 7,547 |
| 10.200 | Grants for Agricultural Research, Special Research Grants | 4,374,701 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Univ. of Idaho | 551,585 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From N. Mexico State Univ. | 420,809 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From North Dakota Univ. | 43,859 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Oregon State Univ. | 14,057 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From South Dak Univ. | 986 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Univ. of Calif. Davis | 11,193 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Utah State | 135,139 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Wash. State | 27,914 |
| 10.200 | Grants for Agricultural Research, Special Research Grants: From Univ. of Wash. | 3,267 |
| 10.202 | Cooperative Forestry Research | 1,961 |
| 10.202 | Cooperative Forestry Research: From Univ. of Tenn. | 51 |
| 10.203 | Payments to Agricultural Experiment Stations Under the Hatch Act | 1,988,590 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants | 1,330,753 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Colorado St Univ. | 8,940 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Fort Peck C.C. | 64,466 |
| 10.206 | Grants for Agricultural Research-Competitive Research Grants: From Univ. of Wyoming | 30,520 |
| 10.212 | Small Business Innovation Research: From MT Microbial Products | 25,360 |
| 10.215 | Sustainable Agriculture Research and Education: From Utah State | 31,428 |
| 10.217 | Higher Education Challenge Grants | 229,419 |
| 10.217 | Higher Education Challenge Grants: From Kansas State | 2,684 |
| 10.224 | Fund for Rural America-Research, Education, and Extension Activities: From Univ. of Minnesota | 204,972 |
| 10.226 | Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants: From Dull Knife C.C. | 14,698 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------|---|-----------|
| 10.227 | 1994 Institutions Research Program: From Dull Knife C.C. | 10,957 |
| 10.227 | 1994 Institutions Research Program: From Fort Peck C.C. | 2,156 |
| 10.250 | Agricultural and Rural Economic Research | 98,940 |
| 10.303 | Integrated Programs | 16,868 |
| 10.303 | Integrated Programs: From Colorado St Univ. | 82,250 |
| 10.303 | Integrated Programs: From Univ. of Calf. Davis | 24,152 |
| 10.304 | Homeland Security - Agricultural: From Kansas State | 32,634 |
| 10.450 | Crop Insurance | 22,770 |
| 10.450 | Crop Insurance: From Fort Peck C.C. | (15) |
| 10.450 | Crop Insurance: From Univ. of Wyoming | 30,163 |
| 10.455 | Community Outreach and Assistance Partnership Program | 26,397 |
| 10.475 | Cooperative Agreements with States for Intrastate Meat and Poultry Inspection | 68,549 |
| 10.500 | Cooperative Extension Service | 45,133 |
| 10.500 | Cooperative Extension Service: From Wash. State | 35,376 |
| 10.500 | Cooperative Extension Service: From Fort Peck C.C. | (1,321) |
| 10.500 | Cooperative Extension Service: From MT Grain Grow. Assoc. | 429 |
| 10.500 | Cooperative Extension Service: From Utah State | 14,689 |
| 10.500 | Cooperative Extension Service: From Univ. of Tenn. | 11,524 |
| 10.500 | Cooperative Extension Service: From Univ. of Wyoming | 14,688 |
| 10.567 | Food Distribution Program on Indian Reservations | 63,742 |
| 10.652 | Forestry Research | 3,387,952 |
| 10.652 | Forestry Research: From Colorado St Univ. | 1,130 |
| 10.652 | Forestry Research: From Nat. Fish Wildlife | 50,344 |
| 10.652 | Forestry Research: From A. Carhart | 44,770 |
| 10.652 | Forestry Research: From Nat. Forest Found. | 3,463 |
| 10.664 | Cooperative Forestry Assistance | 54,860 |
| 10.672 | Rural Development, Forestry, and Communities: From Univ. of Idaho | 15,138 |
| 10.677 | Forest Land Enhancement Program | 13,462 |
| 10.678 | Forest Sewardship Program | 63,012 |
| 10.700 | National Agricultural Library | 90 |
| 10.769 | Rural Business Enterprise Grants: From Kansas State | 12,603 |
| 10.901 | Resource Conservation and Development | 56,807 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------------|---|---------------------|
| 10.902 | Soil and Water Conservation | 33,114 |
| 10.912 | Environmental Quality Incentives Program | 21,646 |
| 10.914 | Wildlife Habitat Incentive Program | 5,926 |
| 10.960 | Technical Agricultural Assistance: From Int. Livestock Res. Inst. | 2,147 |
| 10.961 | Scientific Cooperation and Research | 51,756 |
| 10.999 | Miscellaneous Non-Major Grants | 686,730 |
| 10.999 | Miscellaneous Non-Major Grants: From North Dakota Univ. | 18,256 |
| 10.999 | Miscellaneous Non-Major Grants: From Univ. of Calif. Davis | 123,455 |
| 10.999 | Miscellaneous Non-Major Grants: From Utah State | 150,573 |
| 10.999 | Miscellaneous Non-Major Grants: From Nat. Fish & Wild. Found. | 16,970 |
| TOTAL | | \$15,180,806 |

DEPARTMENT OF COMMERCE

| | | |
|--------------|---|--------------------|
| 11.112 | Export Promotion Market Development Cooperation | 75,298 |
| 11.303 | Economic Development-Technical Assistance | 154,445 |
| 11.427 | Fisheries Development & Utilization Research and Development Grants | 8,847 |
| 11.431 | Climate and Atmospheric Research | 178,947 |
| 11.439 | Marine Mammal Data Program | 120 |
| 11.440 | Environmental Sciences, Applications, Data, and Education | (6,197) |
| 11.463 | Habitat Conservation | 10,158 |
| 11.478 | Center for Sponsored Coastal Ocean Research - Coastal Ocean Program | 7,445 |
| 11.552 | Technology Opportunities Program | 124,479 |
| 11.611 | Manufacturing Extension Partnership | 452,942 |
| TOTAL | | \$1,006,484 |

DEPARTMENT OF DEFENSE

| | | |
|--------|---|-----------|
| 12.002 | Procurement Technical Assistance For Business Firms | 3,214,227 |
| 12.100 | Aquatic Plant Control | (13,669) |
| 12.114 | Collaborative Research and Development: From Univ. of Alabama | 49,672 |
| 12.300 | Basic and Applied Scientific Research | 2,464,135 |
| 12.300 | Basic and Applied Scientific Research: From Center for Innovation | 68,277 |
| 12.300 | Basic and Applied Scientific Research: From Ligocyte Pharm. | 182,833 |
| 12.300 | Basic and Applied Scientific Research: From Scientific Materials | 822,452 |
| 12.420 | Military Medical Research and Development | 1,175,913 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------------|--|---------------------|
| 12.431 | Basic Scientific Research | 1,273,621 |
| 12.630 | Basic, Applied, and Advanced Research in Science and Engineering | 642,723 |
| 12.800 | Air Force Defense Research Sciences Program | 348,733 |
| 12.901 | Mathematical Sciences Grants Program | 11,122 |
| 12.902 | Information Security Grant Program: From Univ. of Col. | 56,862 |
| 12.910 | Research and Technology Development | 570,107 |
| 12.910 | Research and Technology Development: From Alutiq Security & Tech | 1,031,010 |
| 12.999 | Miscellaneous Non-Major Grants: From Colorado St Univ. | 290,700 |
| TOTAL | | \$12,188,718 |

DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

| | | |
|--------------|--|-----------------|
| 14.246 | Community Development Block Grants/Brownfields Economic Development Initiative | 15,875 |
| 14.862 | Indian Community Development Block Grant Program | 95 |
| 14.901 | Healthy Homes Demonstration Grants | 78,849 |
| TOTAL | | \$94,819 |

DEPARTMENT OF THE INTERIOR

| | | |
|--------|--|-----------|
| 15.034 | Agriculture on Indian Lands | 8,021 |
| 15.199 | Tongue River Rehabilitation Grant | 24,224 |
| 15.222 | Cooperative Inspection Agreements with States and Tribes | 237,188 |
| 15.224 | Cultural Resource Management | 830,894 |
| 15.225 | Recreation Resource Management | 54,381 |
| 15.228 | Wildland Urban Interface Community and Rural Fire Assistance | 29,812 |
| 15.252 | Abandoned Mine Land Reclamation (AMLR) Program | 69,161 |
| 15.299 | Miscellaneous Non-Major Grants | 2,501,136 |
| 15.504 | Water Reclamation and Water Reuse Program | 115,366 |
| 15.608 | Fish and Wildlife Management Assistance | 407,513 |
| 15.611 | Wildlife Restoration | 48,044 |
| 15.615 | Cooperative Endangered Species Conservation Fund: From Blackfoot Challenge | 9,942 |
| 15.617 | Wildlife Conservation and Appreciation | 18,978 |
| 15.634 | State Wildlife Grants: From North Dakota Game & Fish | 44,346 |
| 15.635 | Neotropical Migratory Bird Conservation | (3,347) |
| 15.642 | Challenge Cost Share | 4,000 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|--|---------------------|
| 15.699 USDI/Fish & Wildlife Service | 201,608 |
| 15.805 Assistance to State Water Resources Research Institutes | 64,757 |
| 15.807 Earthquake Hazards Reduction Program | 23,413 |
| 15.808 U.S. Geological Survey-Research and Data Acquisition | 1,226,505 |
| 15.810 National Cooperative Geologic Mapping Program | 223,652 |
| 15.811 Gap Analysis Program | 289,729 |
| 15.812 Cooperative Research Units Program | 664,788 |
| 15.904 Historic Preservation Fund Grants-in-Aid | 5,000 |
| 15.910 National Natural Landmarks Program | 924,562 |
| 15.915 Technical Preservation Services | 248,555 |
| 15.915 Technical Preservation Services: From Univ. of Wy. NPS Ctr. | 636 |
| 15.916 Outdoor Recreation: Acquisition, Development and Planning | 32,697 |
| 15.919 Urban Park and Recreation Recovery Program | 22,972 |
| 15.921 Rivers, Trails and Conservation Assistance | 131,818 |
| 15.923 National Center for Preservation Technology and Training | 125,416 |
| 15.999 Miscellaneous Non-Major Grants | 1,905,233 |
| TOTAL | \$10,491,000 |

DEPARTMENT OF JUSTICE

| | |
|---|------------------|
| 16.560 National Institute of Justice Research, Evaluation, and Development Project Grants | 57,052 |
| 16.580 Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog | 689,857 |
| 16.609 Community Prosecution and Project Safe Neighborhoods | 40,688 |
| TOTAL | \$787,597 |

DEPARTMENT OF LABOR

| | |
|---|--------------|
| 17.249 Employment Services and Job Training: Pilot and Demonstration Programs | 733 |
| TOTAL | \$733 |

DEPARTMENT OF STATE

| | |
|--------------------------------------|-----------------|
| 19.432 Overseas Educational Advising | 3,105 |
| 19.999 Miscellaneous Grants | 33,685 |
| TOTAL | \$36,790 |

DEPARTMENT OF TRANSPORTATION

| | |
|--|---------|
| 20.106 Airport Improvement Program: From G5 Technologies | 244,109 |
|--|---------|

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | AMOUNT |
|---|--------------------|
| 20.205 Highway Planning and Construction | 296,273 |
| 20.215 Highway Training and Education: From S. Carolina Univ. | 11,175 |
| 20.600 State and Community Highway Safety | 139,037 |
| 20.999 Miscellaneous Non-major | 2,487,793 |
| 20.999 Miscellaneous Non-major: From California DOT | 69,010 |
| 20.999 Miscellaneous Non-major | (3,731) |
| TOTAL | \$3,243,666 |

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

| | |
|--|-----------|
| 43.001 Aerospace Education Services Program | 5,489,912 |
| 43.001 Aerospace Education Services Program: From Portland St Univ. | 174,199 |
| 43.001 Aerospace Education Services Program: From Auburn University | 72,396 |
| 43.001 Aerospace Education Services Program: From Univ. of Calif. Berkeley | 335,500 |
| 43.001 Aerospace Education Services Program: From Calif. Inst. of Technology | 30,000 |
| 43.001 Aerospace Education Services Program: From Carnigie Institute | 2,646 |
| 43.001 Aerospace Education Services Program: From NASA Goodard Flight Ctr | 90,059 |
| 43.001 Aerospace Education Services Program: From John Hopkins Univ. | 17,276 |
| 43.001 Aerospace Education Services Program: From Lockheed Martin Corp. | 138,358 |
| 43.001 Aerospace Education Services Program: From Univ. of N. Dakota | (36) |
| 43.001 Aerospace Education Services Program: From Salish Kootenai Col. | 62,518 |
| 43.001 Aerospace Education Services Program: From Smithsonian Astro. Obs. | 997 |
| 43.001 Aerospace Education Services Program: From Univ. of Wash. | 24,936 |
| 43.002 Technology Transfer | 647,186 |
| 43.002 Technology Transfer: From Aerodyne Research Inc. | (4,582) |
| 43.002 Technology Transfer: From Carnigie Institute | 84,326 |
| 43.002 Technology Transfer: From Calf State Univ MB | 6,197 |
| 43.002 Technology Transfer: From Univ. of N. Dakota | 46,341 |
| 43.999 Miscellaneous Non-Major Grants | 2,816,976 |
| 43.999 Miscellaneous Non-Major Grants: From CA Inst of Tech | 126,783 |
| 43.999 Miscellaneous Non-Major Grants: From Umatilla Tribe | 54,493 |
| 43.999 Miscellaneous Non-Major Grants: From NASA Jet Propulsion | 19,931 |
| 43.999 Miscellaneous Non-Major Grants: From Colorado St Univ. | 6,763 |
| 43.999 Miscellaneous Non-Major Grants: From Sw Research Inst. | 35,996 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------|---|---------------------|
| 43.999 | Miscellaneous Non-Major Grants: From MT Aerospace Auth. | 33,325 |
| 43.999 | Miscellaneous Non-Major Grants: From Sci. Appl. Intern. Corp. | 41,354 |
| | TOTAL | \$10,353,850 |

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

| | | |
|--------|---|--------------|
| 45.024 | Promotion of the Arts-Grants to Organizations and Individuals: From DANCE USA | 1 |
| 45.160 | Promotion of the Humanities-Fellowships and Stipends | 887 |
| | TOTAL | \$888 |

NATIONAL SCIENCE FOUNDATION

| | | |
|--------|---|-----------|
| 47.041 | Engineering Grants | 992,506 |
| 47.041 | Engineering Grants: From Advr Inc. | 5,171 |
| 47.041 | Engineering Grants: From Univ. of Calif. Berkeley | 117,331 |
| 47.041 | Engineering Grants: From Micro Powder Sol. | (8,450) |
| 47.041 | Engineering Grants: From Resonon Inc. | 30,119 |
| 47.049 | Mathematical and Physical Sciences | 1,885,863 |
| 47.049 | Mathematical and Physical Sciences: From Ctr for Adaptive Optics | 29,362 |
| 47.049 | Mathematical and Physical Sciences: From Univ. of Missouri | 382,240 |
| 47.050 | Geosciences | 1,743,318 |
| 47.050 | Geosciences: From MIT | 62,021 |
| 47.050 | Geosciences: From Ohio Univ. | 155,148 |
| 47.050 | Geosciences: From Univ. of Oregon | 17,795 |
| 47.070 | Computer and Information Science and Engineering | 387,290 |
| 47.070 | Computer and Information Science and Engineering: From Salish Kootenai Col. | 8,783 |
| 47.074 | Biological Sciences | 5,531,664 |
| 47.074 | Biological Sciences: From Duke Univ. | 92,771 |
| 47.074 | Biological Sciences: From Am Inst. of Biological | 119,340 |
| 47.074 | Biological Sciences: From Univ. of Calf. S.D. | 15,150 |
| 47.074 | Biological Sciences: From Idaho St. Univ. | 96,431 |
| 47.075 | Social, Behavioral, and Economic Sciences | 543,128 |
| 47.076 | Education and Human Resources | 3,948,536 |
| 47.076 | Education and Human Resources: From City Univ. of NY | 167,797 |
| 47.076 | Education and Human Resources: From Nat. Sci. Teachers Ass | 364,697 |
| 47.078 | Polar Programs | 412,709 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------------|--|---------------------|
| 47.078 | Polar Programs: From San Diego St Univ | 38,834 |
| 47.999 | Miscellaneous Non-Major Grants: From Mycotech Corporat | 22,673 |
| 47.999 | Miscellaneous Non-Major Grants: From Assoc. of St Geologists | 1,311 |
| TOTAL | | \$17,163,538 |

SMALL BUSINESS ADMINISTRATION

| | | |
|--------------|-----------------------------|------------------|
| 59.051 | New Markets Venture Capital | 242,539 |
| TOTAL | | \$242,539 |

ENVIRONMENTAL PROTECTION AGENCY

| | | |
|--------|---|-----------|
| 66.436 | Surveys, Studies, Investigations & Demonstrations of the Clean Water Act | 10,415 |
| 66.460 | Nonpoint Source Implementation Grants: From Blackfoot Challenge | 742,528 |
| 66.460 | Nonpoint Source Implementation Grants: From Sheridan County | 49,154 |
| 66.460 | Nonpoint Source Implementation Grants: From Lower Musselshell | 40,864 |
| 66.460 | Nonpoint Source Implementation Grants: From Stillwater County | 55,672 |
| 66.460 | Nonpoint Source Implementation Grants: From Liberty County Co | 34,439 |
| 66.463 | Water Quality Cooperative Agreements | 32,966 |
| 66.509 | Science To Achieve Results (STAR) Program: From Temple Univ. | 66,212 |
| 66.599 | Miscellaneous Non-Major Grants | 121,237 |
| 66.599 | Miscellaneous Non-Major Grants: From Colorado St Univ. | 75,131 |
| 66.605 | Performance Partnership Grants: From Lincoln County | 35,378 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants | 1,313,359 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants: From CH2M Hill | 15,318 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants: From Univ. of Illinois | (3,422) |
| 66.708 | Pollution Prevention Grants Program | 23,627 |
| 66.709 | Multi-Media Capacity Building Grants for States and Tribes | 71,325 |
| 66.714 | Pesticide Environmental Stewardship - Regional Grants | 36,250 |
| 66.716 | Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach | 179,566 |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CDM Corp. | 158,609 |
| 66.802 | Superfund State, Political Subdivision, and Indian Tribe Site - Specific Coop. Agreements: From CH2M Hill | 6,741 |
| 66.806 | Superfund Technical Assistance Grants for Citizen Groups at Priority Sites | 907 |
| 66.808 | Solid Waste Management Assistance | 2,738 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------------|--|--------------------|
| 66.951 | Environmental Education Grants | 35,638 |
| 66.999 | Miscellaneous Non-Major Grants: From Colorado Mountain Coll. | 20,000 |
| 66.999 | Miscellaneous Non-Major Grants: From Organic Farming Res. Fon. | 3,023 |
| TOTAL | | \$3,127,675 |

DEPARTMENT OF ENERGY

| | | |
|--------------|---|--------------------|
| 81.022 | Used Energy-Related Laboratory Equipment Grants: From Center for Innovation | 49,305 |
| 81.049 | Office of Science Financial Assistance Program | 913,310 |
| 81.049 | Office of Science Financial Assistance Program: From Bechtel BWXT | 135 |
| 81.049 | Office of Science Financial Assistance Program: From UT Battelle LLC | 22,271 |
| 81.049 | Office of Science Financial Assistance Program: From Inland NW Res All | 242,267 |
| 81.049 | Office of Science Financial Assistance Program: From San Diego St Univ | 16,171 |
| 81.049 | Office of Science Financial Assistance Program: From San Diego St Univ | 49,985 |
| 81.049 | Office of Science Financial Assistance Program: From Sandia Corp | 30,569 |
| 81.049 | Office of Science Financial Assistance Program: From Univ. of Calif. | 34,215 |
| 81.057 | University Coal Research | 261,665 |
| 81.064 | Office of Scientific and Technical Information: From Univ. of Calif. Lawer. | 2,582 |
| 81.079 | Regional Biomass Energy Programs | 59,655 |
| 81.087 | Renewable Energy Research and Development | 79,105 |
| 81.087 | Renewable Energy Research and Development: From Battelle | 40,183 |
| 81.087 | Renewable Energy Research and Development: From Bechtel BWXT Idaho | 14,833 |
| 81.087 | Renewable Energy Research and Development: From Big Sky Econ. Dev. Auth | 232,404 |
| 81.087 | Renewable Energy Research and Development: From Fuel Cell Energy Inc. | 102,844 |
| 81.087 | Renewable Energy Research and Development: From Pac. NW Nat. Labratory | 1,215,277 |
| 81.087 | Renewable Energy Research and Development: From Sandia Nat. Laboratories | 266,673 |
| 81.089 | Fossil Energy Research and Development | 388,785 |
| 81.089 | Fossil Energy Research and Development: From Virginia Polytech | 220,173 |
| 81.104 | Office of Environmental Cleanup and Acceleration | 134,010 |
| 81.104 | Office of Environmental Cleanup and Acceleration: From MSE | 397,929 |
| 81.117 | Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training | 89,059 |
| 81.119 | State Energy Program Special Projects | 752,045 |
| TOTAL | | \$5,615,450 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

DEPARTMENT OF EDUCATION

| | | |
|--------------|--|--------------------|
| 84.021 | International: Overseas-Group Projects Abroad | 46,456 |
| 84.042 | TRIO-Student Support Services | 380,204 |
| 84.116 | Fund for the Improvement of Postsecondary Education | 312,944 |
| 84.133 | National Institute on Disability and Rehabilitation Research | 660,862 |
| 84.133 | National Institute on Disability and Rehabilitation Research: From Univ. of Kansas | 207 |
| 84.215 | Fund for Improvement of Education | 100,783 |
| 84.215 | Fund for Improvement of Education: From Golden Triangle | 19,379 |
| 84.215 | Fund for Improvement of Education: From Anaconda Public | 203,607 |
| 84.324 | Special Education-Research and Innovation to Improve Services and Results for Children: From Univ. of CA North | 14,276 |
| 84.350 | Transition to Teaching | 988,114 |
| TOTAL | | \$2,726,832 |

DEPARTMENT OF HEALTH AND HUMAN SERVICES

| | | |
|--------|---|---------|
| 93.044 | Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers: From MT Transport. Partnershop | 45,146 |
| 93.113 | Biological Response to Environmental Health Hazards | 675,888 |
| 93.115 | Biometry and Risk Estimation Health Risks from Environmental Exposures | 278,644 |
| 93.121 | Oral Diseases and Disorders Research | 261,043 |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs | 255,151 |
| 93.173 | Research Related to Deafness and Communication Disorders | 257,828 |
| 93.173 | Research Related to Deafness and Communication Disorders: From Univ. of Texas | 54,252 |
| 93.178 | Nursing Workforce Diversity | 308,515 |
| 93.184 | Disabilities Prevention | 317,727 |
| 93.211 | Telehealth Network Grants | 123,759 |
| 93.226 | Research on Healthcare Costs, Quality and Outcomes | 256,861 |
| 93.242 | Mental Health Research Grants | 641,488 |
| 93.247 | Advanced Education Nursing Grant Program | 352,461 |
| 93.262 | Occupational Safety and Health Program: From University of Mis | 120,797 |
| 93.273 | Alcohol Research Programs | 18,357 |
| 93.279 | Drug Abuse Research Programs | 39,069 |
| 93.283 | Centers for Disease Control and Prevention-Investigations and Technical Assistance | 477,286 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

AMOUNT

| | | |
|--------|---|------------|
| 93.301 | Small Rural Hospital Improvement Grants | 366,240 |
| 93.358 | Advanced Education Nursing Traineeships | 18,414 |
| 93.361 | Nursing Research | 413,431 |
| 93.389 | National Center for Research Resources | 13,332,767 |
| 93.393 | Cancer Cause and Prevention Research: From MT Sinai Sch of Med. | 41,459 |
| 93.395 | Cancer Treatment Research | 341,060 |
| 93.396 | Cancer Biology Research | 226,920 |
| 93.398 | Cancer Research Manpower | 130,594 |
| 93.647 | Social Services Research and Demonstration | 147,186 |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 791,237 |
| 93.824 | Basic/Core Area Health Education Centers: From Univ. of Wash. | 89,709 |
| 93.837 | Heart and Vascular Diseases Research | 800,619 |
| 93.838 | Lung Diseases Research | 671,279 |
| 93.838 | Lung Diseases Research: From Univ. of Calif. | 378,910 |
| 93.838 | Lung Diseases Research: From Univ. of Rochester | 451,626 |
| 93.839 | Blood Diseases and Resources Research | 100,838 |
| 93.846 | Arthritis, Musculoskeletal and Skin Diseases Research | 368,739 |
| 93.849 | Kidney Diseases, Urology and Hematology Research | 70,354 |
| 93.853 | Extramural Research Programs in the Neurosciences and Neurological Disorders | 2,111,155 |
| 93.855 | Allergy, Immunology and Transplantation Research | 3,329,422 |
| 93.856 | Microbiology and Infectious Diseases Research | 3,912,228 |
| 93.856 | Microbiology and Infectious Diseases Research: From Colorado State Univ. | 134,125 |
| 93.856 | Microbiology and Infectious Diseases Research: From Seattle Biomed. Inst. | 447 |
| 93.856 | Microbiology and Infectious Diseases Research: From Univ. of Wash. | 105,503 |
| 93.859 | Biomedical Research and Research Training | 1,606,661 |
| 93.862 | Genetics and Developmental Biology Research | 625 |
| 93.865 | Child Health and Human Development Extramural Research | 265,919 |
| 93.866 | Aging Research | 58,486 |
| 93.867 | Vision Research | 206,999 |
| 93.999 | Miscellaneous Non-Major Grants: From Univ. of Wash. | 360,879 |
| 93.999 | Miscellaneous Non-Major Grants: From Scripps Inst. | 315,972 |

State of Montana
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ending June 30, 2005

| | | AMOUNT |
|---|--|-------------------------------|
| 93.999 | Miscellaneous Non-Major Grants: From Sequoia Sci. Inc. | 93,254 |
| | TOTAL | <u>\$35,727,329</u> |
| SOCIAL SECURITY ADMINISTRATION | | |
| 96.007 | Social Security Research and Demonstration | 28,503 |
| | TOTAL | <u>\$28,503</u> |
| HOMELAND SECURITY | | |
| 93.996 | Bioterrorism Training and Curriculum Development Program | 158,365 |
| | TOTAL | <u>\$158,365</u> |
| UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT | | |
| 98.002 | Cooperative Development Program (CDP): From Univ.of Co. Dev. | 50,113 |
| 98.005 | Institutional Support Assistance (ISA) | 67,693 |
| 98.005 | Institutional Support Assistance (ISA): From Univ. of Hawaii Manoa | 597,861 |
| 98.005 | Institutional Support Assistance (ISA): From Univ. of Calf. Davis | (11,850) |
| | TOTAL | <u>\$703,817</u> |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | <u>\$118,879,399</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | <u>\$1,813,528,275</u> |

STATE OF MONTANA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Note 1. Basis of Accounting

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

Food Distribution Program

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2005, Montana distributed \$468,500 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$6,932,220 in commodities in fiscal year 2005. The value at June 30, 2005 of commodities stored at the state's warehouse is \$1,888,055 for which the state is liable in the event of loss. The state has insurance to cover this liability.

Federal Surplus Personal Property

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

Capitalization Grants for State Revolving Funds

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2005 in the Water Pollution Control Revolving Fund Program is \$123,406,127.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2005. The amount of loans outstanding for the program as of June 30, 2005 is \$52,140,592.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2005 is \$296,901.

Temporary Assistance to Needy Families Loan Program

The amount presented for the Temporary Assistance to Needy Families Loan Program (CFDA #93.558) represents federal contributions, plus the administrative costs expended as of June 30. The amount of housing loans outstanding as of June 30, 2005 is \$412,689.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$148,250,807 (net) in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY2005. The outstanding loan balance (including principal, accrued interest and collection cost) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirement was \$50,274,900 at June 30, 2005. The dollar amount of Default Aversion Fees transferred from the Federal Fund to the Agency's Operating Fund during FY2005 was \$610,544. In addition, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2005 of \$15,377,265 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor.

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2005. The amount of loans outstanding as of June 30, 2005 is \$30,128,513.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2005 is \$1,767,658.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2005. The state used the CDC price list to calculate the value of doses received. During fiscal year 2005, Montana received 166,384 vaccine doses valued at \$3,427,148.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,300,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. No expenditures of tribal loan funds were incurred on project costs during FY 2005. The amount of the loan outstanding as of June 30, 2005 is \$9,561,538.

Middle Creek Dam Rehabilitation Project Loan

The Department of Natural Resources and Conservation and the U.S Department of the Interior, Bureau of Reclamation (BOR) entered into an agreement on September 21, 1990. The BOR agreed to loan the State of Montana "...a sum of money not to exceed the lesser of (1) \$3,023,925 plus reimbursable interest during construction or (2) the actual cost of the project including reimbursable interest during construction..." The total loan repayable is \$2,990,129 and interest during construction is \$281,857. The amount, as of June 30, 2005, of loan outstanding is \$2,612,671 and of interest during construction outstanding is \$224,944.

Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$12,633,931 for the biennial period

Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format **.99, **.999, or **.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or

development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA #, the program was assigned a CFDA # in the format 99.999.

Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

| <u>CFDA #</u> | <u>Program</u> | <u>FY05 Amount</u> | <u>Inventory</u> |
|---------------|---------------------------------|--------------------|------------------|
| 10.664 | Cooperative Forestry Assistance | \$732,661 | \$5,481,746 |
| 12.999 | Misc. Non. Major | \$0 | \$53,590 |
| 47.999 | National Science Foundation | \$664,050 | \$1,563,553 |

Note 5. Books for the Blind and Physically Handicapped:

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2005, was \$1,736,795. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

Note 6. Unemployment Benefits

The unemployment compensation system is a federal-state partnership. State unemployment insurance laws must conform to certain provisions of the federal law. Federal funds are expended for administrative costs. State unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, and are used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA).

The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for the Unemployment Insurance Program (CFDA #17.225), as well as a breakdown between administrative costs and benefit payments:

| | |
|-------------------------|------------------|
| UI Administrative Costs | \$8,887,617 |
| State UI Benefits | 67,370,627 |
| Federal UI Benefits | <u>7,920,938</u> |
| Total | \$ 84,179,182 |

Note 7. Subgrants to State Agencies

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from non-state sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

Note 8. Subgrants to Non-State Entities

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2005.

| CFDA Number | Program Title | Amount Provided To Subrecipient |
|------------------------|--|--|
| 10.200 | Grants for Agricultural Research, Special Research Grants | 1,048,648 |
| 10.206 | Grants for Agricultural Research & Competitive Research Grants | 61,141 |
| 10.217 | Higher Education Challenge Grants | 51,248 |
| 10.250 | Agricultural and Rural Economic Research | 41,617 |
| 10.302 | Initiative for Future Agriculture and Food Systems | 385,522 |
| 10.450 | Crop Insurance | 5,732 |
| 10.455 | Community Outreach and Assistance Partnership Program | 3,165 |
| 10.500 | Cooperative Extension Service | 115,530 |
| 10.550 | Food Donation | 2,422,634 |
| 10.553 | School Breakfast Program | 4,112,660 |
| 10.556 | Special Milk Program for Children | 42,361 |
| 10.557 | Special Supplemental Nutrition Program for WIC | 3,367,532 |
| 10.558 | Child and Adult Care Food Program | 8,826,552 |
| 10.559 | Summer Food Program for Children | 656,941 |
| 10.560 | State Administrative Expenses for Child Nutrition | 189,287 |
| 10.570 | Nutrition Services Incentive | 692,751 |
| 10.572 | WIC Farmers' Market Nutrition Program (FMNP) | 44,848 |
| 10.652 | Forestry Research | 70,968 |
| 10.664 | Cooperative Forestry Assistance | 2,625,890 |
| 10.665 | Schools and Roads-Grants to States | 13,417,136 |
| 10.677 | Forest Land Enhancement Program | 161,300 |
| 10.773 | Rural Business Opportunity Grants | 22,851 |
| 10.901 | Resource Conservation and Development | 24,360 |
| 10.999 | Department of Agriculture - Miscellaneous | 727,983 |
| 11.112 | Export Promotion Market Development Cooperation | 10,543 |
| 11.431 | Climate and Atmospheric Research | 18,570 |
| 12.002 | Procurement Technical Assistance For Business Firms | 734,901 |
| 12.300 | Basic and Applied Scientific Research | 389,016 |
| 12.420 | Military Medical Research and Development | 68,776 |
| 12.630 | Basic, Applied, and Advanced Research in Science and Engineering | 2,760 |
| 12.910 | Research & Technology Development | 188,881 |
| 14.228 | Community Development Block Grant/State's Program | 8,288,280 |
| 14.239 | Home Investment Partnerships Program | 6,609,325 |
| 14.246 | Community Development Block Grants/Brownfields Economic Development Initiative | 5,736 |
| 14.856 | Lower Income Housing Assistance Program - Section 8 Moderate Rehab | 121,226 |
| 14.871 | Section 8 Housing Choice Vouchers | 1,295,549 |
| 15.224 | Cultural Resource Management | 162,497 |
| 15.228 | Wildland Urban Interface Community and Rural Fire Assistance | 1,244,487 |
| 15.299 | Miscellaneous Non-Major Grants | 379,855 |
| 15.608 | Fish and Wildlife Management Assistance | 127,594 |
| 15.805 | Assistance to State Water Resources Research Institutes | 386 |
| 15.808 | U.S. Geological Survey-Research and Data Collection | 6,857 |
| 15.812 | Cooperative Research Units Program | 5,465 |
| 15.904 | Historic Preservation Fund Grants-In-Aid | 23,668 |
| 15.914 | National Register of Historic Places | 126,955 |
| 15.919 | Urban Park and Recreation Recovery Program | 15,470 |
| 15.921 | Rivers, Trails and Conservation Assistance | 20,110 |
| 15.999 | Miscellaneous Department of the Interior | 518,083 |
| 16.523 | Juvenile Accountability Incentive Block Grants | 514,916 |
| 16.540 | Juvenile Justice and Delinquency Prevention: Allocation to States | 616,092 |
| 16.548 | Title V Delinquency Prevention Program | 85,000 |
| 16.549 | Part E State Challenge Activities | 14,352 |
| 16.554 | National Criminal History Improvement Program (NCHIP) | 140,748 |
| 16.575 | Crime Victim Assistance | 1,330,571 |
| 16.579 | Byrne Formula Grant Program | 1,722,056 |
| 16.588 | Violence Against Women Formula Grants | 608,108 |
| 16.592 | Local Law Enforcement Block Grant Program | 158,613 |
| 16.609 | Community Prosecution and Project Safe Neighborhoods | 7,500 |
| 16.710 | Public Safety Partnership and Community Policing Grants | 107,680 |
| 16.727 | Enforcing Underage Drinking Laws Program | 324,729 |
| 17.235 | Senior Community Service Employment Program | 378,283 |
| 17.249 | Employment Services and Job Training: Pilot and Demo. Programs | 15,480 |
| 17.258 | WIA Adult Program | 2,521,210 |
| 17.259 | WIA Youth Activities | 2,563,894 |
| 17.260 | WIA Dislocated Workers | 2,185,341 |
| 17.261 | Employment and Training Administration Pilots, Demonstrations, and Research Projects | 3,000 |
| 17.267 | WIA Incentive Grants -Section 503 Grants to States | 303,300 |
| 19.424 | Educational Partnerships Program | 15,136 |
| 20.106 | Airport Improvement Program | 148,455 |
| 20.205 | Highway Planning and Construction | 5,016,802 |
| 20.500 | Federal Transit - Capital Investment Grants | 614,157 |
| 20.507 | Federal Transit - Formula Grants | 1,142,026 |
| 20.513 | Capital Assistance Program for the Elderly and Persons with Disabilities | 81,600 |

| <i>CFDA Number</i> | <i>Program Title</i> | <i>Amount Provided To Subrecipient</i> |
|------------------------|--|--|
| 20.514 | Transit Planning and Research | 79,843 |
| 20.600 | State and Community Highway Safety | 721,796 |
| 20.602 | Occupant Protection | 71,392 |
| 20.603 | Federal Highway Safety Data Improvements Incentive Grants | 12,628 |
| 20.604 | Safety Incentive Grants for Use of Seatbelts | 17,362 |
| 20.605 | Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons | 1,750 |
| 20.607 | Alcohol Open Container Requirements | 653,545 |
| 20.608 | Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 207,653 |
| 20.701 | University Transportation Centers Program | (595) |
| 20.703 | Interagency Hazardous Materials Public Sector Training and Planning Grants | 850 |
| 21.999 | Treasury Miscellaneous | 561,829 |
| 39.011 | Election Reform Payments | 511,971 |
| 43.001 | Aerospace Education Services Program | 91,367 |
| 43.002 | Technology Transfer | 14,373 |
| 43.999 | Miscellaneous Non-Major Grants | 876,213 |
| 45.025 | Promotion of the Arts-Partnership Agreements | 387,939 |
| 45.310 | State Library Program | 139,274 |
| 47.041 | Engineering Grants | 53,355 |
| 47.049 | Mathematical and Physical Sciences | 35,084 |
| 47.050 | Geosciences | 115,638 |
| 47.074 | Biological Sciences | 780,528 |
| 47.075 | Social, Behavioral, and Economic Sciences | 11,019 |
| 47.076 | Education and Human Resources | 1,410,070 |
| 47.078 | Polar Programs | 2,074 |
| 59.037 | Small Business Development Center | 392,633 |
| 66.599 | Miscellaneous Non-Major Grants | 313,991 |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants | 53,307 |
| 66.811 | Brownfield Pilots Cooperative Agreements | 690 |
| 81.049 | Office of Science Financial Assistance Program | 12,687 |
| 81.087 | Renewable Energy Research and Development | 81,000 |
| 81.089 | Fossil Energy Research and Development | 4,867 |
| 81.104 | Office of Environmental Cleanup and Acceleration | 35,000 |
| 81.119 | State Energy Program Special Projects | 527,140 |
| 84.002 | Adult Education-State Grant Program | 1,224,375 |
| 84.010 | Title I Grants to Local Educational Agencies | 38,846,422 |
| 84.011 | Migrant Education-Basic State Grant Program | 866,598 |
| 84.013 | Title I Program for Neglected and Delinquent Children | 128,262 |
| 84.027 | Special Education - Grants to States | 30,117,452 |
| 84.048 | Vocational Education - Basic Grants to States | 4,106,050 |
| 84.069 | Leveraging Educational Assistance Partnership | 43,662 |
| 84.116 | Fund for the Improvement of Postsecondary Education | 14,197 |
| 84.133 | National Institute on Disability and Rehabilitation Research | 20,587 |
| 84.144 | Migrant Education_Coordination Program | 110,000 |
| 84.153 | Business and International Education | 1,373 |
| 84.173 | Special Education - Preschool Grants | 1,160,625 |
| 84.186 | Safe & Drug Free Schools and Communities - State Grants | 1,991,875 |
| 84.196 | Education for Homeless Children and Youth | 135,821 |
| 84.213 | Even Start - State Educational Agencies | 984,462 |
| 84.215 | Fund for the Improvement of Education | 187,870 |
| 84.235 | Rehabilitation Services Demonstration and Training Programs | 159,790 |
| 84.243 | Tech-Prep Education | 14,822 |
| 84.264 | Rehabilitation Training-Continuing Education | 25,027 |
| 84.287 | Twenty-First Century Community Learning Centers | 4,325,355 |
| 84.298 | State Grants for Innovative Programs | 1,318,431 |
| 84.318 | Education Technology State Grants | 2,837,716 |
| 84.323 | Special Education-State Program Improvement Grants for Children with Disabilities | 65,725 |
| 84.324 | Special Education-Research and Innovation to Improve Services and Results for Children with Disabilities | 62,681 |
| 84.325 | Special Education - Personnel Prep. to Improve Serv. & Results for Children with Disabilities | 77,007 |
| 84.330 | Advanced Placement Incentive Program | 209,570 |
| 84.332 | Comprehensive School Reform Demonstration | 838,197 |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs | 696,451 |
| 84.338 | Reading Excellence | 376,841 |
| 84.340 | Class Size Reduction | (318) |
| 84.350 | Transition to Teaching | 240,965 |
| 84.357 | Reading First State Grants | 3,624,804 |
| 84.358 | Rural Education | 268,608 |
| 84.360 | Dropout Prevention Programs | 71,104 |
| 84.365 | English Language Acquisition Grants | 287,757 |
| 84.366 | Mathematics and Science Partnerships | 639,386 |
| 84.367 | Improving Teacher Quality State Grants | 12,486,153 |
| 93.003 | Public Health and Social Services Emergency Fund | 30,909 |
| 93.041 | Special Programs for the Aging -Title VII, Chapter 3: Prevention | 19,270 |
| 93.042 | Special Programs for the Aging -Title VII, Chapter 2: Long Term Care | 69,552 |

| CFDA Number | Program Title | Amount Provided To Subrecipient |
|------------------------|---|--|
| 93.043 | Special Programs for the Aging - Title III, Part D: Disease Prevention | 107,001 |
| 93.044 | Special Programs for the Aging - Title III, Part B: Supportive Services | 1,501,605 |
| 93.045 | Special Programs for the Aging - Title III, Part C: Nutrition Services | 2,536,362 |
| 93.048 | Special Programs for the Aging - Title IV & and Title II - Discretionary Proj. | 169,172 |
| 93.052 | Nation Family Caregiver Support Program | 699,827 |
| 93.110 | Maternal and Child Health Federal Consolidated Programs | 10,919 |
| 93.113 | Biological Response to Environmental Health Hazards | 119,627 |
| 93.115 | Biometry and Risk Estimation-Health Risks from Environmental Exposures | 27,892 |
| 93.150 | Projects for Assistance in Transition from Homelessness (PATH) | 279,474 |
| 93.173 | Research Related to Deafness and Communication Disorders | 12,294 |
| 93.184 | Disabilities Prevention | 76,528 |
| 93.217 | Family Planning Services | 1,936,118 |
| 93.226 | Research on Healthcare Costs, Quality and Outcomes | 15,993 |
| 93.230 | Consolidated Knowledge Development and Application (KD&A) Program | 598,279 |
| 93.235 | Abstinence Education | 17,971 |
| 93.241 | State Rural Hospital Flexibility Program | 323,800 |
| 93.243 | Substance Abuse and Mental Health Services_Projects of Regional and National Significance | 16,109 |
| 93.273 | Alcohol Research Programs | 4,979 |
| 93.283 | Centers for Disease Control and Prevention-Investigations and Technical Assistance | 141,805 |
| 93.301 | Small Rural Hospital Improvement Grants | 419,459 |
| 93.307 | Minority Health and Health Disparities Research | 5,312,500 |
| 93.361 | Nursing Research | 12,107 |
| 93.389 | National Center for Research Resources | 4,300,269 |
| 93.556 | Promoting Safe and Stable Families | 1,197,633 |
| 93.566 | Refugee and Entrant Assistance-State Administered Programs | 100,740 |
| 93.575 | Child Care and Development Block Grant | 4,776,356 |
| 93.590 | Community-Based Family Resource and Support Grants | 174,414 |
| 93.597 | Grants to States for Access and Visitation Programs | 10,000 |
| 93.599 | Chafee Education and Training Vouchers Program (ETV) | 122,140 |
| 93.600 | Head Start | 128,954 |
| 93.617 | Voting Access for Individuals with Disabilities-Grants to States | 106,538 |
| 93.630 | Developmental Disabilities Basic Support and Advocacy Grants | 440,419 |
| 93.647 | Social Services Research and Demonstration | 46,892 |
| 93.658 | Foster Care Title IV-E | 2,617,595 |
| 93.669 | Child Abuse and Neglect State Grants | 34,218 |
| 93.671 | Family Violence Prevention and Services/Grants for Battered Women | 720,166 |
| 93.674 | Chafee Foster Care Independent Living | 326,342 |
| 93.778 | Medical Assistance Program | 24,067 |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 174,826 |
| 93.822 | Health Careers Opportunities Program | 291,934 |
| 93.824 | Basic/Core Area Health Education Centers | 16,177 |
| 93.837 | Heart and Vascular Diseases Research | 124,727 |
| 93.853 | Extramural Research Programs in the Neurosciences and Neurological Disorders | 32,569 |
| 93.855 | Allergy, Immunology and Transplantation Research | 1,632,984 |
| 93.856 | Microbiology and Infectious Diseases Research | 117,170 |
| 93.865 | Child Health and Human Development Extramural Research | 46,498 |
| 93.958 | Block Grants for Community Mental Health Services | 953,841 |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | 6,653,221 |
| 93.969 | Geriatric Education Centers | 31,937 |
| 93.991 | Preventive Health and Health Services Block Grant | 152,213 |
| 93.994 | Maternal and Child Health Services Block Grant to the States | 1,107,982 |
| 93.996 | Bioterrorism Training and Curriculum Development Program | 3,249 |
| 94.004 | Learn and Serve America - School and Community Based Program | 306,509 |
| 94.005 | Learn and Serve America - Higher Education | 3,700 |
| 94.006 | Americorps | 1,814,193 |
| 96.007 | Social Security Research and Demonstration | 84,030 |
| 97.004 | State Domestic Preparedness Equipment Support Program | 11,065,352 |
| 97.017 | Pre-Disaster Mitigation (PDM) Competitive Grants | 17,550 |
| 97.036 | Public Assistance Grants | 34,623 |
| 97.039 | Hazard Mitigation Grant | 74,797 |
| 97.042 | Emergency Management Performance Grants | 670,764 |
| 97.047 | Pre-Disaster Mitigation | 97,064 |
| 97.051 | State and Local All Hazards Emergency Operations Planning | 70,179 |
| 97.053 | Citizen Corps | 3,763 |
| 97.054 | Community Emergency Response Teams | 134,822 |
| 97.067 | Homeland Security Grant Program | 301,666 |
| 98.001 | USAID Foreign Assistance for Programs Overseas | 12,500 |
| 98.005 | Institutional Support Assistance (ISA) | 279,927 |
| Total | | 252,743,734 |